
MIAMI, FLA.
Schweppes
Kodak

Quick, what comes to your mind when you think of Kodak?

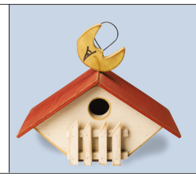
Sure. Kodak has helped the world create a lot of memories.

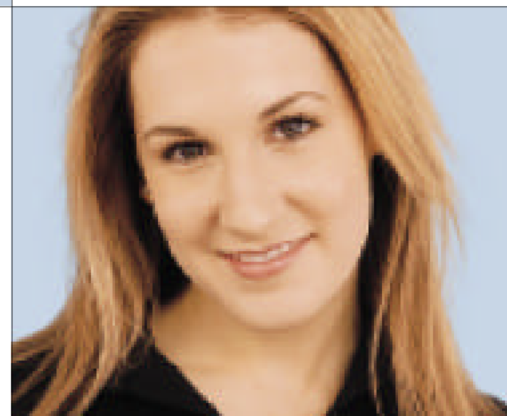
But there’s something else we’ve helped create.

Hundreds of billions of dollars of value in today's net economy.

And there’s a name for how it was done: infoimaging.

Infoimaging. It’s how a garment maker in Iceland sells sweaters… and how real estate agents in your neighborhood sell homes. It’s how your kids buy CDs…and how Detroit buys manufacturing components.





Heather

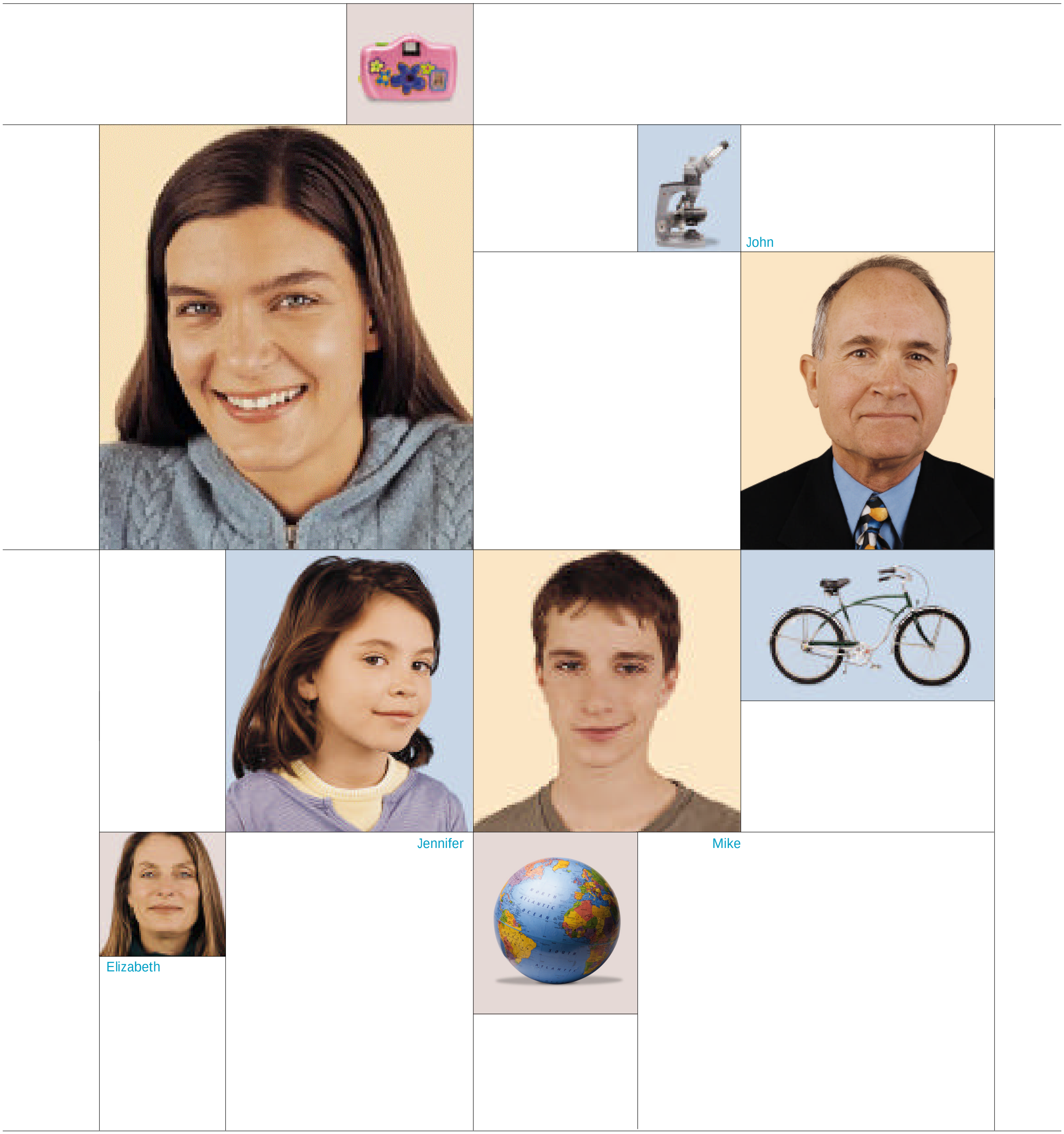
James

Larry

Paul

James Flewellyn kicked the tires of dozens of new cars before ever stepping foot into a dealer's showroom. Larry Houston found the perfect retirement home in Florida while sitting in his den in Maryland. Heather Obert's home furnishings studio ships worldwide to customers who see her creations on the Web. Paul Martin selects parts suppliers for his car customization business based upon the high resolution product photos they e-mail to him.

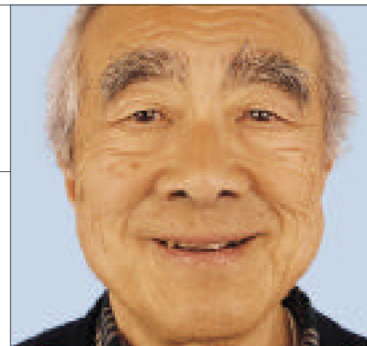
Infoimaging. It’s how Motorola turns cell phones into web browsers. It’s how your doctor gets diagnostic data in seconds…and how you will preserve your most important documents for centuries.



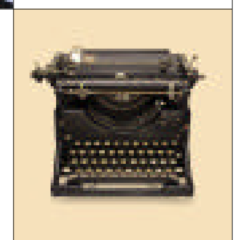
Jennifer Laperle of Paris, France and Mike Goodman of Santa Barbara, California are helping their classmates learn about the world through the digital photo diaries they share on the Web. John Bernard's radiologist in Seattle got a second opinion within minutes from a team of specialists at a teaching hospital in Boston. Elizabeth Dryer provides better service to her auto insurance policyholders by capturing pictures of the car, along with diagrams and witness statements on her Palm handheld organizer.

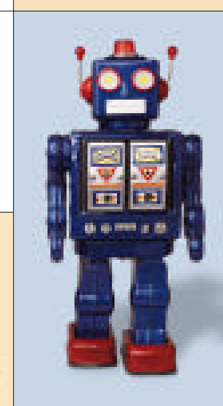
Infoimaging is the convergence of Information Technology and Imaging Science. It's already a $225 billion industry. And it's growing daily.

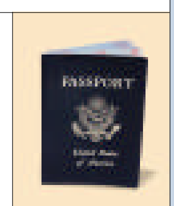
Dolores



Frank



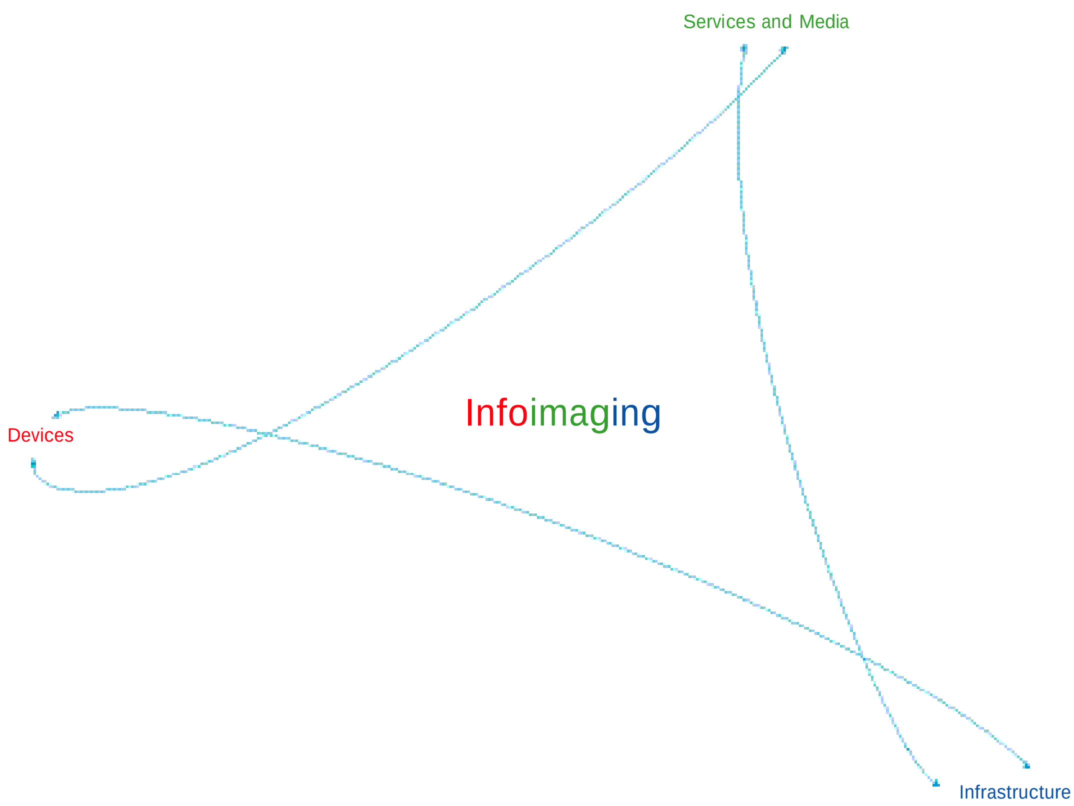




Samantha

Frank Lee buys toys on the Web for his six children, twenty-two grandchildren and forty-nine great-grandchildren. Dolores Eason shared her wedding pictures over the Internet with everyone who couldn't attend the ceremony held in Tahiti. Samantha Grace is writing a research study on Pacific coral reefs with the help of satellite images that pinpoint ecosystems that have suffered damage.

Infoimaging@Kodak



Devices

Cameras / Scanners Printers / X-ray laser output systems / Image-enabled information devices / Flat panel displays / Health imaging equipment / Sensors

Services and Media

Photo printing, storage and sharing / Document preservation / Motion picture digital imaging services and visual effects / Film and paper / Inkjet paper and pigments / Writable CDs and CD-Roms

Infrastructure

Online imaging and photofinishing networks/ Imaging software / Imaging protocols and transmissions

Last year, the number of pictures on the Web grew by an astonishing 500%. Today, consumers are converting nearly 30 million film images a month into digital files. In one industry alone — the medical profession — more than $20 billion a year is spent on imaging products and services.

Clearly, something important is happening here. Suddenly, sharing ideas and information with images is as easy — no, easier — than putting the same thoughts into words. And suddenly, many of the world's leading technology companies — including Cisco, Intel, and Hewlett Packard — are discovering new ways to reap profits from pixels.

A $225 billion industry has emerged, creating new imaging devices, offering imaging services and media, and constructing the digital infrastructure that ties it all together.

Now this new industry has a name: infoimaging. Kodak has built the foundations that make infoimaging possible. With nearly 1,000 new patents in imaging technology a year, we are the catalyst for value creation for virtually every company who produces infoimaging products and services.

75% of all images currently on the Web are touched by Kodak technology. Kodak leads the world in film-to-digital image scanning capability and capacity. Kodak has the number one system in the world for online image distribution.

But Kodak is doing more than supplying the technologies that drive this new category. We are also introducing a constant stream of products and services that carry the Kodak brand into the three key infoimaging sectors — creating opportunities for synergy and linkage across the entire space.

Devices

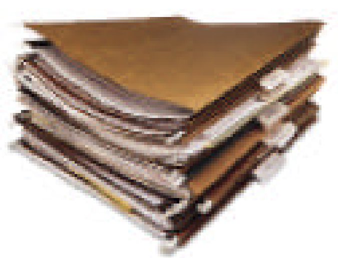
Kodak PalmPix The hot, must-have accessory for the Palm hand-held organizer. Unlike other digital cameras, the PalmPix camera has no moving parts and does not require a memory card. It turns any Palm organizer into a digital camera with 2X digital zoom. Now, what-you-see is what-you-can-store on your Palm, for business or fun. With the ultra-lightweight (less than 2 ounces) PalmPix, you can capture and store up to 1,000 color images, or download them to your personal computer so you can save, manipulate, and e-mail standard JPEG or BMP files.

OLED It stands for Organic Light-Emitting Diode. And this Kodak innovation may be the coolest full-color, full-motion display technology ever invented: a viewing panel that's thin as a dime, with a sharp, bright picture viewable from virtually any angle, even in full daylight. The winner of IndustryWeek's Technology of the Year award, OLED is now used in select Motorola cellular phones and in Pioneer and Alpine car audio systems. However, OLED may soon be the display of choice for laptop computers and other devices, growing to an estimated $3 billion industry by 2005.

Kodak mc3 The first all-in-one compact video recorder, Internet music player and digital still camera — the ultimate personal digital entertainment device. Designed with the "Y Generation" in mind, the Kodak mc3 lets you download and listen to your favorite MP3s, snap up to 600 still pictures or shoot your own movies. Better yet, you can edit everything you capture into personalized video clips or music videos and e-mail them to your friends.

Advantix Preview Camera We combined the best-liked feature of digital cameras — instant previews of each shot — with the easiest-to-use film system ever developed. With the new Kodak Advantix Preview Camera, you see the picture the moment you take it, on a color LCD screen. Then, just select how many prints you'd like — from zero to nine — and a code on the film will convey your instructions to the photo processor. No more prints you don't want, and no more trips back to the store or mailbox for reprints.

Services and Media



Document Preservation Most of today's digital images and documents will someday become unreadable, because of the finite life expectancy of discs and tapes, and because they are created with software or hardware that will one day become outmoded. Fortunately, we have developed a simple, affordable remedy: Kodak Digital Preservation Solutions. You safely and securely upload your documents to Kodak, where they will be recorded in a highly compressed, but human readable, film-based medium. Of course, you will have instant, secure access to your documents — in digital or hard copy form — and so will future generations.

Digital Film Mastering Technology Kodak technology lets filmmakers convert motion pictures into high quality digital format, so they can use the power of the computer to adjust the color, contrast, and lighting of each scene, as well as create special effects. The Coen Brothers' "O Brother, Where Art Thou?" is the first major motion picture to use this process throughout. Working with Cinesite (a Kodak subsidiary), the filmmakers gave the entire movie a hand-painted look in keeping with the story's era. The resulting Kodak Digital Intermediate enables film prints as well as content for digital cinema, high definition television and other future applications to be made from a single digital source.

Medical Radiography Systems With last year's acquisition of Lumisys and its computed radiography desktop systems, Kodak's portfolio of digital and computed radiography products represents the broadest set of choices in the medical imaging market. We also now can offer a combined PACS (Picture Archiving and Communications Systems) and RIS (Radiology/Information System), meaning complete patient histories can be stored and distributed throughout a hospital in tandem with the full set of the patient's medical images. And because diagnosticians still want hard copy prints, we offer the market-leading Kodak DryView family of dry laser imagers, for stand-alone use or as components of complete imaging systems.

Kodak Earth Imaging Products Kodak is building the world's most comprehensive online earth imaging store, with high resolution color aerial images of 95 North American urban areas, plus images of Australia and Western Europe, available this year. For numerous industries, including construction, engineering, telecommunications, utilities and real estate, Kodak Earth Imaging Products — at www.kodak.com/go/earthimaging — will be the fastest, easiest and most economical way to obtain high resolution aerial imagery. Industry analysts predict the earth imaging information market will exceed $1.6 billion in the next three years, and Kodak plans to lead the category.

Services and Media

Print@Kodak service What do the Internet photo sharing websites Snapfish.com, PhotoPoint.com and MyFamily.com have in common? They all offer photofinishing from a brand their customers trust, Print@Kodak, our branded online print fulfillment service. Naturally, you can also find the Print@Kodak icon on Kodak's own popular website, Kodak.com. And as the online photo sharing industry grows, Kodak will be the backbone of the business, with the technologies and the production capacity to create 40 million high-quality prints a day.

Kodak Professional Workflow Kodak is creating an industry standard that will offer an online digital alternative to today's cumbersome method of manually shipping hard copy "proofs" back and forth among professional photo studios, labs and customers, accompanied by written instructions on photo selection and quantity, cropping, etc. With the Kodak workflow link system, images can easily be transmitted and viewed online — with electronically embedded instructions for each order. For example, wedding portrait proofs — which photographers now commonly share only with the bride and groom and their families — can now be e-mailed to all of the wedding guests, giving everyone an opportunity to order prints.

Infrastructure

Qualex Kodak's Qualex subsidiary is the world's largest photo processor, with more than 50 wholesale photofinishing labs and over one billion dollars in annual revenues. Qualex leases on-site one-hour processing equipment to more than 10,000 retail locations including Walgreens, Target and CVS. By the summer of 2000, Qualex labs and on-site locations were printing up to one million pictures per day! Qualex does all scanning and processing for Kodak PhotoNet online and America Online's You've Got Pictures. Last year, consumer demand for Qualex digital services grew 70%, with more than 260 million images scanned.

Kodak PhotoNet Online With the world's leading online photo sharing network, we've made getting your pictures online as easy as "checking the box" on the envelope when you drop off your film for processing. Since 1998, Kodak has scanned, stored and delivered millions of photos as downloaded files, prints, Kodak Picture CDs and Kodak Picture Discs. Kodak PhotoNet online is also the engine behind America Online's You've Got Pictures, displayed on the welcome screen seen by more than 27 million AOL members.

Financial Highlights

(Dollar amounts and shares in millions, except per share data)	2000[1]	1999[2]
Stock price per share at year end	$ 39.38	$ 66.25
Sales	$ 13,994	$ 14,089
Earnings from operations	$ 2,214	$ 1,990
Net earnings	$ 1,407	$ 1,392
Basic earnings per share	$ 4.62	$ 4.38
Diluted earnings per share	$ 4.59	$ 4.33
Cash dividends declared	$ 533	$ 560
—per common share	$ 1.76	$ 1.76
Average number of common shares outstanding	304.9	318.0
Shareholders at year end	113,308	131,719
Total shareholders' equity	$ 3,428	$ 3,912
Additions to properties	$ 945	$ 1,127
Depreciation	$ 738	$ 773
Wages, salaries and employee benefits	$ 3,726	$ 3,962
Employees at year end		
—in the U.S.	43,200	43,300
—worldwide	78,400	80,650

(1) Results for the year included charges related to the sale and exit of a manufacturing facility of $50 million, which reduced net earnings by $33 million. Excluding this item, net earnings were $1,440 million. Basic and diluted earnings per share were $4.73 and $4.70, respectively.

(2) Results for the year included $350 million of restructuring charges, which reduced net earnings by $231 million, and an additional $11 million of charges related to this restructuring program, which reduced net earnings by $7 million; $103 million of charges associated with business exits, which reduced net earnings by $68 million; a gain of $95 million on the sale of The Image Bank, which increased net earnings by $63 million; and a gain of $25 million on the sale of the Motion Analysis Systems Division, which increased net earnings by $16 million. Excluding these items, net earnings were $1,619 million. Basic and diluted earnings per share were $5.09 and $5.03, respectively.

To Our Shareholders

Charles S. Brown and Patricia A. Bitnar (left and center) received the 2000 Kodak "CEO Diversity Award" for exemplifying strong leadership in fostering a work environment that respects and values all individuals.

In 2000, May Snowden (right) was appointed Kodak's Chief Diversity Officer, a newly created position for the company. For the complete 2000 Diversity Report, see page 66.

2000 was, in retrospect, a year that kept the investment analysts and economic pundits working overtime.

Last year, the U.S. economy was red hot, and the so-called "new economy" was even hotter. Today, as you scan the business headlines, the key word is "slump"… consumer confidence is in a blue funk… and the NASDAQ couldn't get much flatter.

The question for investors now becomes, "Where do you invest your money after the bubble bursts?"

Let me suggest three possible answers. First, it makes sense, now more than ever, to invest in strong brands. Because when times are tighter, consumers are less inclined to risk their money on a new or unknown name.

Second, invest in products and services that offer high satisfaction at a low price. In other words, value-for-the-money is king.

Third, it might be wise to seek companies that are adept at generating cash. Those are the firms that will continue to invest in themselves and prepare for growth, regardless of the economy.

And that, as you might have already surmised, brings us straight to Kodak. However, if a great brand and a great balance sheet are not sufficiently compelling, there is something else investors should consider: this is a very smart time to be in the picture business.

Picture-taking is now at an all-time high worldwide. Amateur photographers took more than 80 billion snapshots last year, a new record. They ordered more than 100 billion prints, another milestone for the industry.

In the health imaging category (our second largest business), more records were shattered. Healthcare professionals last year ordered more than 1.5 billion Kodak radiological images.

For the past century, our business has been all about making it simpler for people to capture better images, first with film, and more recently, with digital technology. And, as we continue to make film and digital photography more accessible, picture-taking will continue to grow.

Today, though, image capture is only half the story. The real growth in our business will accrue to those who give people new and better ways to **use** their pictures.

Take, for example, the world of opportunity that has opened on the Internet. Last year, more than $45 billion worth of products and services were sold on the Web — with the help of more than one billion online images. And 75% of those images are touched by Kodak technology.

The explosion of technologies that drive picture usage is fueling a whole new industry. Specifically, the fusion of information technology and image science has given rise to infoimaging.

The dozen new Kodak products and services arrayed across the preceding pages offer just a small glimpse into how infoimaging is redefining our business. We are playing a leading role in the use of images on the Web … in digitizing still and motion picture film … in analyzing and extracting information from digital pictures … in wireless and broadband transmission of images … in storage and preservation … and in dozens of other technologies that will shape the industry for years to come.

The performance of Kodak's principal business units in 2000 reflects this new focus.

Kodak's Consumer Imaging business is entering the infoimaging era with a dual mission: better pictures and better sharing.

For many consumers, better pictures begin with better film — such as the new, improved Kodak Max 400 film, which delivers significantly better results for up to 25% of pictures taken, when compared to 100 and 200 speed films. In the U.S., premium film products such as Kodak Max and Advantix films comprise more than 60% of film sales.

Consumer pictures can also be significantly improved by the technologies Kodak has developed for digital photo processing. In 2000, we introduced the Kodak I.Lab system, a high-speed digital lab system for wholesale photofinishers that automatically corrects the most common problems consumers have with their pictures: poor exposure, dark shadows, graininess and red eye. We've seen customer satisfaction rates jump significantly among people who receive these digital prints.

As we move into the era of infoimaging, image capture will become an ubiquitous, 24/7 activity. New devices like the Kodak PalmPix camera, which turns your handheld organizer into a digital camera, will help make more people "picture-ready," anytime, anywhere. And to further ensure no one misses a potential picture-taking opportunity, we are partnering with Maytag Corporation to create a national network of high-tech Kodak Max film vending machines that carry a fresh, refrigerated supply of one-time-use cameras and film. Taking a cue from the soft drink industry, we will be "putting the product where the people are," at leisure locations such as resorts, amusement parks and zoos. Each machine will feature wireless Internet-connectivity for processing debit and charge card sales and monitoring inventory.

Our Digital and Applied Imaging division continues to find new ways to make digital photography easy, seamless and more accessible for people.

And there's no doubt about it, digital photography has caught fire with consumers. Last year, Kodak's sales of digital cameras leaped 80%. In addition to marketing our own branded products, Kodak is a major supplier of CCD and CMOS sensing devices — the heart of a digital camera — to other manufacturers. In fact, 25% of all the high-resolution CCDs in use today are from Kodak.

Last year, we introduced the Kodak DC4800 digital camera to rave reviews. The camera combines supercrisp 3.1 megapixel resolution with ease of use and full creative control for the serious photographer.

Our inkjet paper and media business saw a 31% increase in revenues in 2000, with quality products such as the new Kodak Ultima Picture Papers for prints that retain their original brilliance for 20–30 years. Kodak was once again cited by a recent Lyra Research study as the inkjet photo paper brand consumers most widely prefer.

In our Health Imaging business, 45 new products were launched in 2000, providing solutions in every link of the medical imaging and information chain.

Approximately 50% of this division's sales now come from digital products, such as Kodak's computed radiography and digital radiography systems. In 2000, a milestone was achieved with the sale of our 10,000th Kodak DryView Laser Imager, with a nearly 70% increase in placements for the year. Looking ahead, we just signed an agreement with Novation, the nation's largest healthcare purchasing organization, to provide an estimated $1.4 billion in laser imagers and medical film products over the next five years.

In another exciting development, our Health Imaging division is partnering with Intel and Cedars-Sinai Medical Center to pilot an Application Service Provider model for the medical imaging business. Cedars-Sinai will transmit images — captured and managed via Kodak digital systems — to an Intel Online Services data center. The images will be available to physicians via the Internet and billed on a fee-per-use basis.

For our Kodak Professional division, the past two years have been marked by numerous business challenges and accelerating technology transition.

However, with a newly organized unit pursuing new growth areas — and last year's successful restructuring of the Kodak Polychrome Graphics joint venture — we believe the business will regain momentum as the economy picks up.

Kodak Professional introduced several breakthrough products in 2000. The NexPress 2100 digital color printer, developed in a joint venture with Heidelberg, can serve as an extension of a company's web site or customer call center, creating individually customized marketing materials. Names, pictures, text and other variables can be changed "on the fly" as customer requests are received online.

Kodak Professional's bid for leadership in new technologies is perhaps best exemplified by the introduction of the DCS Pro Back digital camera, incorporating the world's first 16-megapixel sensor. This represented a truly prestigious achievement for Kodak, as no one else has ever introduced a digital camera that can deliver even half the image resolution of this device.

As the entertainment industry moves towards an increasingly digital future, Entertainment Imaging is successfully driving film, hybrid, and digital strategies to provide leadership in the transition.

In 2000, a healthy worldwide box office contributed to record-setting print film sales and very strong demand for color negatives. And, once again, all Academy Award-nominated movies in Best Picture, Best Cinematography, and virtually all other major categories were produced on Kodak motion picture film.

Cinesite (Entertainment Imaging's digital services unit) provided scanning, recording, and special effects for a record number of high-profile movies. Cinesite also created the first end-to-end Kodak Digital Intermediate of a major motion picture ("O Brother, Where Art Thou?"), introducing an innovative digital process that extends the creativity of filmmakers and provides a high-quality bridge to digital display.

Work is now in progress on a digital cinema infrastructure, combining Kodak technology with components from others, to create a system with on-screen picture quality that surpasses anything else available.

Kodak's Document Imaging division continues to be a strong competitor in the business and government markets it serves.

For example, since entering the color scanning business in 1998, Kodak's market share has rocketed from 10% to more than 50% today. Our high-speed production scanning equipment played a pivotal role in the recent U.S. census, processing more than 2 million forms per day. Kodak scanners are now participating in more than 20 other census counts worldwide, including the census for the United Kingdom, France, Australia and Brazil.

Kodak Digital Preservation Service will be a major contributor to the division's future growth. Industry experts estimate this will be a $7 billion category by the year 2004. At present, the United States Social Security Administration is preserving its critical digital and paper documents with Kodak systems, as are many banks and insurance companies.

Our Commercial and Government Systems division turned in a year of strong growth, while it collected more kudos for advanced imaging technology.

The Kodak team that helped develop the Chandra X-ray Observatory was recognized for outstanding scientific achievement by the National Air & Space Museum. In its first year, Chandra has already revealed the brilliant remains of a stellar explosion in the Crab Nebula, a possible emission from the black hole at the center of the Milky Way galaxy, and several other astronomic firsts.

Kodak people also provided the digital imaging technology aboard the IKONOS earth-orbiting satellite, a winner of last year's "Best of What's New" award from *Popular Science* magazine. Since January of last year, IKONOS has collected 200,000 images covering 24 million square miles of our planet—information that is proving immensely valuable to environmental scientists.

As you can see, Kodak's business these days goes far beyond the familiar roll of film in the bright yellow box. Which brings up another good question: What category do you assign to a company that is creating technologies that will drive everything from online commerce to interstellar exploration?

That new category is infoimaging. Because, in the digital age, images drive value. And Kodak drives images.

Dan Carp

Daniel A. Carp
Chairman, President and Chief Executive Officer

Daniel A. Carp

Management's Discussion and Analysis

of Financial Condition and Results of Operations

Summary (in millions, except per share data)	2000	Change	1999	Change	1998
Sales	$ 13,994	–1%	$ 14,089	+5%	$ 13,406
Earnings from operations	2,214	+11%	1,990	+5%	1,888
Net earnings	1,407	+1%	1,392	–	1,390
Basic earnings per share	4.62	+5%	4.38	+2%	4.30
Diluted earnings per share	4.59	+6%	4.33	+2%	4.24

2000

The Company's results for the year included the following:

Pre-tax charges of approximately $50 million ($33 million after tax) associated with the sale and exit of one of the Company's equipment manufacturing facilities. The costs for this effort, which began in 1999, related to accelerated depreciation of assets still in use prior to the sale of the facility in the second quarter, and costs for relocation of the operations. Additional relocation costs of approximately $10 million pre-tax, per quarter, will be recorded through the first half of 2001 in connection with these actions.

Excluding the above, net earnings were $1,440 million. Basic earnings per share were $4.73 and diluted earnings per share were $4.70.

1999

The Company's results for the year included the following:

A pre-tax restructuring charge of $350 million ($231 million after tax) related to worldwide manufacturing and photofinishing consolidation and reductions in selling, general and administrative positions worldwide. See Note 11, Restructuring Programs and Cost Reduction. In addition, the Company incurred pre-tax charges of $11 million ($7 million after tax) related to accelerated depreciation of assets still in use during 1999 and sold in 2000, in connection with the exit of one of the Company's equipment manufacturing facilities.

Pre-tax charges totaling approximately $103 million ($68 million after tax) associated with the exits of the Eastman Software business ($51 million pre-tax) and Entertainment Imaging's sticker print kiosk product line ($32 million pre-tax) as well as the write-off of the Company's Calcomp investment ($20 million pre-tax), which was determined to be unrecoverable.

Pre-tax gains of approximately $120 million ($79 million after tax) related to the sale of The Image Bank ($95 million pre-tax gain) and the Motion Analysis Systems Division ($25 million pre-tax gain). See Note 16, Sales of Assets and Divestitures.

Excluding the above items, net earnings were $1,619 million. Basic earnings per share were $5.09 and diluted earnings per share were $5.03.

1998

The Company's results for the year included the following:

The sales of its NanoSystems subsidiary and a portion of the Company's investment in Gretag Imaging Group (Gretag), resulting in pre-tax gains of $87 and $66 million ($57 and $44 million after tax), respectively. See Note 16, Sales of Assets and Divestitures.

A pre-tax charge of $132 million ($87 million after tax) for asset write-downs and employee severance in the Office Imaging division due to volume reductions from Danka Business Systems PLC (Danka). See Note 16, Sales of Assets and Divestitures.

A pre-tax charge of $45 million ($30 million after tax), primarily for in-process research and development (R&D), associated with the acquisition of the medical imaging business of Imation Corp. (the Imation charge). See Note 15, Acquisitions and Joint Ventures.

Excluding the above items, and pre-tax litigation charges of $35 million ($23 million after tax) related primarily to Health Imaging, net earnings were $1,429 million. Basic earnings per share were $4.42 and diluted earnings per share were $4.37.

Detailed Results of Operations

Sales by Operating Segment (in millions)	2000	Change	1999	Change	1998
Consumer Imaging					
Inside the U.S.	$ 3,738	+5%	$ 3,562	+7%	$ 3,342
Outside the U.S.	3,668	–5%	3,849	+1%	3,822
Total Consumer Imaging	7,406	0%	7,411	+3%	7,164
Kodak Professional					
Inside the U.S.	711	–7%	766	+6%	725
Outside the U.S.	995	–13%	1,144	+3%	1,115
Total Kodak Professional	1,706	–11%	1,910	+4%	1,840
Health Imaging					
Inside the U.S.	1,038	+9%	954	+43%	668
Outside the U.S.	1,147	–2%	1,166	+36%	858
Total Health Imaging	2,185	+3%	2,120	+39%	1,526
Other Imaging					
Inside the U.S.	1,323	+1%	1,312	–16%	1,558
Outside the U.S.	1,374	+3%	1,336	+1%	1,318
Total Other Imaging	2,697	+2%	2,648	–8%	2,876
Total Sales	$ 13,994	–1%	$ 14,089	+5%	$ 13,406

Earnings From Operations and Net Earnings by Operating Segment—See Note 17, Segment Information.

2000 Compared with 1999

Consolidated Worldwide sales of $13,994 million declined less than 1% from 1999. Excluding portfolio adjustments, which reduced revenue by 2%, and the negative impact of currency, which reduced revenue by 3%, sales were up 4% compared with 1999. Deteriorating U.S. economic conditions in the second half of the year adversely impacted sales across a number of the Company's businesses, particularly the consumer business. Consumer film and paper experienced slight sales declines while the Company's Kodak Professional segment experienced more significant declines. However, a number of the Company's businesses did achieve sales growth in 2000, including Health Imaging, Entertainment Imaging, Digital and Applied Imaging and Commercial and Government Systems.

During 2000, the Company amended its definition of digital to better reflect the digital product components of its graphics business as well as some additional product reassignments. This principally includes computer to plate products and digital proofing systems. Under this new definition, digital revenues for the year were $3,001 million, an increase of 5% over 1999. Digital products and services represented 21% of the Company's 2000 sales. Sales of consumer digital products and services increased 16%, while sales of commercial digital products and services were flat. Growth in consumer digital was led by increased revenues from consumer digital cameras while the commercial digital business saw sales increases in healthcare-related offerings largely offset by reduced graphics sales. Earnings from operations associated with the above sales were a negative $58 million compared with a profit of $13 million in 1999. Included in 2000 earnings from operations for the digital business are pre-tax charges of approximately $45 million related to the Company's PictureVision acquisition and write-downs at the Company's divested Eastman Software business.

Sales in emerging markets increased 7% from 1999, and represent 18% of the Company's total revenue in 2000. Revenues generally increased in all major regions in which Kodak participates, with Greater China up 10%, Asian Emerging Markets up 9%, Greater Russia up 39%, Latin America up 3%, and Eastern Europe up 2%.

Gross profit declined 2% with margins declining .6 percentage points from 43.3% in 1999 to 42.7% in 2000. Excluding special charges in both years, gross profit margins decreased 2.6 percentage points from 45.7% in 1999 to 43.1% in the current year. The decline in margin was driven primarily by lower prices, increased sales of lower margin products, like one-time-use cameras and consumer digital cameras, and the negative impact of exchange. Productivity gains that were recognized earlier in the year were partially offset during the fourth quarter as the Company reduced inventories in the face of slowing demand and retailer inventory reductions.

Selling, general and administrative (SG&A) expenses decreased 10% from 23.4% of sales in 1999 to 21.3% in 2000. Excluding special charges in 1999, SG&A decreased 6% from the prior year from 22.5% of sales to 21.3%. The reduction in SG&A expenses primarily reflects the success of the Company's cost reduction initiatives and portfolio actions.

R&D expenses decreased 4% during the year from 5.8% of sales in 1999 to 5.6% in 2000. This decline primarily reflects the benefit of portfolio actions, primarily the divestiture of Eastman Software.

Earnings from operations increased 11% or $224 million in 2000. Adjusting for special charges in both years, earnings from operations declined $190 million or 8% as increased sales volumes in many of the Company's businesses and the success of cost savings initiatives did not offset lower effective selling prices and adverse currency movements.

Interest expense increased 25% over 1999 reflecting higher average borrowing and rising interest rates. Other income decreased by $165 million or 63% from 1999 due largely to the inclusion of gains of $120 million from the sale of the Image Bank and Motion Analysis Systems Division in 1999. Excluding the gains from the sale of these businesses, other income declined $45 million, primarily reflecting lower equity earnings from the Company's Kodak Polychrome Graphics (KPG) joint venture.

The effective tax rate for both 2000 and 1999 was 34%.

Consumer Imaging Sales in the Consumer Imaging segment of $7,406 were essentially flat compared with 1999, as increased volumes were offset by lower prices and adverse currency movements. Excluding unfavorable exchange movements, sales increased 3%. U.S. sales increased 5% while sales outside the U.S. declined by 5%, but increased 2% excluding the unfavorable effect of exchange movements.

Worldwide film sales (including 35mm film, Advantix film, and one-time-use cameras) decreased 1% from 1999 as increased volumes in all major categories could not offset pricing pressures and adverse currency movements. U.S. film sales increased 2% primarily due to volume increases of 17% in one-time-use cameras and 15% in Advantix film. The Company successfully held total film market share in the U.S. for the 3rd consecutive year. Outside the U.S., film sales to dealers declined 3% as increased volumes were offset by lower prices and negative currency movements.

Throughout 2000, the Company continued to successfully shift consumers to the differentiated, higher value MAX and Advantix product lines. By the fourth quarter, combined U.S. sales of MAX and Advantix films grew to more than 62% of total U.S. consumer roll film revenues, up 6 percentage points over year-end 1999.

Worldwide paper sales declined 3% in 2000 as volume gains could not offset lower prices and negative exchange. U.S. paper sales increased by 1%, as 3% volume increases offset lower prices. Outside the U.S., paper sales decreased 5% as increased volumes could not offset lower prices and negative exchange movements.

The penetration rate for the number of rolls scanned at Qualex wholesale laboratories averaged 4.1% for the full year, equivalent to approximately 260 million scanned images. By the end of 2000, the number of placements of Kodak Picture Maker kiosks was over 29,000, an increase of 6,000 from year-end 1999.

SG&A expenses for the segment decreased 6%, from 25.2% of sales in 1999 to 23.7% in 2000, reflecting the benefits of the Company's cost reduction efforts. SG&A excluding advertising decreased 6%, from 17.5% of sales in 1999 to 16.4% in 2000. R&D expenses decreased 9%, from 4.7% of sales in 1999 to 4.3% in 2000.

Earnings from operations decreased 9%, reflecting reduced profit margins driven primarily by lower effective selling prices, unfavorable product mix and adverse exchange movements. Lower gross profit was partially offset by reduced SG&A and R&D spending. Net earnings were $860 million, which reflects a 4% decrease from the prior year, due primarily to lower earnings from operations.

Kodak Professional Sales in the Kodak Professional segment decreased 11% from 1999, 8% excluding adverse currency movements. Adjusting the year-over-year comparison for the impact of the formation of the KPG joint venture in Japan, sales declined 9%. U.S. revenues decreased 7% and revenues outside the U.S. decreased 13%, or 8% excluding the unfavorable impact of exchange.

Total commercial products revenue declined 14% primarily due to lower sensitized film and paper sales, as well as declines in professional digital camera sales, all of which suffered from volume declines and pricing pressure. The graphics business also experienced revenue declines of approximately 26%, due to reduced sales to the Company's KPG joint venture. The segment's Portrait/Social business increased 2% reflecting increased sales of digitization services and 35mm film, which increased both on a dollar and unit basis.

SG&A expenses for the segment were in line with 1999 in dollar terms but increased as a percentage of sales, from 18.1% to 20.3%. Excluding advertising expenses, SG&A expenses increased 1%, from 15.9% of sales to 18.0%. R&D spending decreased 10% in dollar terms, but remained level on a percentage of sales basis at 7.4%. The decrease is primarily due to the reclassification of NexPress R&D costs to below earnings from operations upon the formation of the NexPress joint venture in 1999. Excluding this reclassification, R&D decreased 2%.

Earnings from operations decreased 30%, while net earnings declined 58%. Included in 1999 earnings from operations is a $20 million pre-tax charge related to the write-off of the Company's investment in CalComp Corporation. Excluding this charge, other income (charges) decreased $141 million from a positive $48 million in 1999 to a negative $93 million in 2000, primarily reflecting a reduction in joint venture income from KPG and the reclassification of NexPress R&D.

Health Imaging Sales in the Health Imaging segment increased 3% from the prior year, or 6% excluding the adverse effect of currency movements. Sales inside the U.S. increased 9%, while sales outside the U.S. decreased 2%, despite an increase of 7% in emerging market sales. Excluding negative exchange movements, sales outside the U.S. increased 4%.

Sales of digital products (including laser printers, digital media, digital capture equipment and Picture Archiving and Communication Systems (PACS)) increased 11% over fiscal 1999. Placements of DryView laser imagers increased 67% in 2000. DryView media sales increased 48% on higher volumes, while digital capture products and PACS increased 51%. The growth in these digital product lines was partially mitigated by an expected decline in wet laser imaging sales.

Sales of traditional medical products, including analog film, equipment, chemistry and services, declined 3% for the year but were flat when adjusted for exchange. For traditional analog film (excluding specialty films), year-over-year sales declined 6% reflecting flat volumes, unfavorable exchange and anticipated price declines. Mammography and Oncology specialty products grew by 12% primarily on higher volumes, while sales of dental products increased 5% on slightly higher volumes and favorable pricing.

SG&A expenses for the segment decreased 6%, from 20.0% of sales in 1999 to 18.2% in 2000. Excluding advertising expenses, SG&A expenses decreased 8%, from 19.1% of sales to 17.1%, reflecting the benefits of cost control initiatives and the continued successful integration of the Imation business acquired in December 1998. R&D expenses increased 5%, from 6.0% of sales in 1999 to 6.2% in 2000.

Earnings from operations increased 7%, as higher sales and lower SG&A costs more than offset increased R&D spending. Segment net earnings increased 10%, from $315 million to $346 million.

Other Imaging Sales in the Other Imaging segment increased 2% from the prior year, or 5% excluding exchange. Adjusting for the impact of portfolio changes, segment sales were up 10%. Sales growth in 2000 was led by strong digital camera sales and increased sales performance in the Commercial & Government Systems unit. Sales of motion picture film and services also increased, reflecting the motion picture film industry's recovery from the softness of a year ago. U.S. sales increased 1%, while sales outside the U.S. were up 3%, but up 9% excluding exchange.

Consumer digital camera sales increased 26% with over 70% higher unit volumes partially offset by lower prices that reflect the competitiveness of this business. U.S. digital camera sales grew by 17% while camera sales outside the U.S. increased 38%, both reflecting higher unit volumes and lower prices.

SG&A expenses for the segment decreased 12%, from 20.6% of sales in 1999 to 17.7% in 2000. Adjusting for special charges taken in 1999, SG&A expenses declined 8%. Excluding advertising expenses, SG&A expenses decreased 17%, from 17.4% of sales to 14.2%. Current-year SG&A expenses included charges of approximately $23 million primarily related to the Company's PictureVision acquisition and write-downs at the Company's divested Eastman Software business, while prior year included SG&A from divested businesses. R&D expenses increased 1% in dollar terms, but were level on a percentage of sales basis at 7.7%. R&D expenses in 2000 include approximately $10 million of charges for the write-off of in-process R&D related to the PictureVision acquisition.

Earnings from operations were $227 million, which is $30 million or 15% higher than 1999. Excluding special charges in both years, earnings from operations of $237 million decreased $45 million, or 16% year over year. The lower earnings are primarily due to lower prices on consumer digital cameras and CD media, and adverse currency movements, which more than offset SG&A savings. Net earnings for the segment were $161 million, a decrease of 27% from the prior year reflecting lower earnings from operations in 2000 and the inclusion of gains from portfolio actions in 1999.

1999 Compared with 1998

Consolidated Worldwide sales for 1999 increased 5% over the prior year. The impact of portfolio actions on the year-to-year comparison was essentially neutral. Currency changes against the dollar negatively affected sales by $12 million. Sales growth in 1999 was achieved across numerous businesses, including Health Imaging film (analog film as well as laser imaging products of the acquired Imation medical imaging business), consumer and professional digital cameras, Consumer Imaging color paper and film (especially Advantix film and one-time-use cameras), CD media, and inkjet media.

Sales in emerging markets increased 6%, and accounted for approximately 16% of the Company's 1999 worldwide sales. The emerging markets portfolio showed growth across a wide geographical range, with China up 30%, Korea up 36% and India up 19%. Strong growth in Mexico of 16% was offset by a 16% decline in Brazil, resulting in a 2% decline in the Latin American Region. Sales in Russia were weak, reflecting a 33% sales decline from 1998.

Overall gross profit margins decreased 2.3 percentage points from 45.6% in 1998 to 43.3% in 1999. Excluding special charges in both years, gross profit margins decreased .4 percentage points from 46.1% in 1998 to 45.7% in 1999. Gross profit margins were pressured by lower prices, increased levels of goodwill amortization, startup costs in the China manufacturing project, and the acquired Imation medical imaging business, which had gross profit rates lower than the Company average. These pressures were offset, almost entirely, by gains in manufacturing productivity, improvements in digital businesses, and the beneficial effects of portfolio actions taken, including the divestiture of Office Imaging and a significant portion of Consumer Imaging's retail business.

SG&A expenses for the Company were essentially level, but decreased from 24.6% of sales in 1998 to 23.4% in 1999. Excluding restructuring charges, SG&A expenses decreased 2% from the prior year and declined as a percentage of sales from 24.1% in 1998 to 22.5% in 1999. SG&A excluding advertising expenses also decreased, from 18.5% to 17.4% of sales. The decrease in rates, excluding restructuring charges, is due to higher sales and cost reduction activities as well as reductions in advertising expense.

Excluding the Imation charge in 1998, R&D decreased 7%, from 6.6% of sales in 1998 to 5.8% in 1999, as a result of a number of factors, including improvement in the R&D cost structure, a more tightly focused portfolio, and more joint development, with more work shared with partners.

Earnings from operations increased 5% to $1,990 million. Excluding special charges in both years, earnings from operations increased $389 million or 19%, as the benefits of higher unit sales volumes across many of the Company's key products, manufacturing productivity, and cost reductions more than offset lower effective selling prices and the unfavorable effects of currency rate changes.

Interest expense increased 29% in 1999 to $142 million, primarily due to higher average borrowings. Other income (charges) decreased $67 million from the prior year. Excluding special charges and credits from 1999 and 1998, other income (charges) decreased $70 million, resulting primarily from reduced investment income, lower gains on asset sales and R&D investments in the NexPress joint venture. The effective tax rates were 34% in both 1999 and 1998.

Consumer Imaging Consumer Imaging segment sales increased 3% in 1999. Excluding the impact of the divestiture of the Fox Photo operating unit in September 1998, sales increased 6%, as higher volumes more than offset lower effective selling prices and the negative effects of exchange. Sales inside the U.S. increased 7%, as higher volumes were partly offset by lower effective selling prices and the impact of portfolio changes. Sales outside the U.S. increased 1%, as higher volumes more than offset lower effective selling prices and the negative effects of exchange.

Worldwide film sales increased 4% over 1998, as volume increases of 10% more than offset lower effective selling prices. Sales inside the U.S. increased 2%, as higher unit volumes more than offset lower effective selling prices. Sales outside the U.S. increased 5%, as higher volumes more than offset lower effective selling prices and the unfavorable effects of currency rate changes.

Worldwide color paper sales increased 6% over 1998, as volume increases of 9% more than offset lower effective selling prices. Sales inside the U.S. were particularly strong, increasing 12%, due to higher unit volumes and slightly higher effective selling prices. Sales outside the U.S. increased 2%, as higher volumes more than offset lower effective selling prices and the unfavorable effects of currency rate changes.

SG&A expenses for the segment decreased 5% in dollar terms, and from 27.4% of sales in 1998 to 25.2% in 1999, reflecting the benefits of Consumer Imaging's sales growth and cost reduction activities. Excluding advertising expenses, SG&A expenses decreased 4%, from 18.9% of sales in 1998 to 17.5% in 1999. R&D expenses decreased 5%, from 5.1% of sales in 1998 to 4.7% in 1999.

Earnings from operations increased 20% in 1999, as higher sales volumes, cost reductions and manufacturing productivity more than offset lower effective selling prices and the unfavorable effects of currency rate changes. Net earnings were $900 million, an increase of 15% from the prior year, which included a $44 million after-tax gain related to the sale of a portion of the Company's investment in Gretag. Excluding the 1998 Gretag gain, net earnings increased 21%, as a result of increases in earnings from operations.

Kodak Professional Kodak Professional segment sales increased 4% in 1999. Adjusting for the contribution of the Japan graphics business to the KPG joint venture, sales increased 8%, as higher volumes more than offset lower effective selling prices. Sales inside the U.S. increased 6%, as higher volumes more than offset lower effective selling prices. Sales outside the U.S. increased 3%, as higher volumes more than offset decreases from portfolio changes.

Worldwide Graphics film sales increased 9% in 1999 on the strength of a 25% volume increase which more than offset lower graphics film prices. Worldwide Portrait/Social sales increased 10%, as higher volumes and the favorable effects of exchange were partially offset by lower effective selling prices. Sales inside the U.S. increased 10%, due to higher volumes and higher effective selling prices. Sales outside the U.S. increased 9%, as volume increases and the favorable effects of exchange were partially offset by lower effective selling prices.

SG&A expenses for the segment decreased 7%, from 20.3% of sales in 1998 to 18.1% in 1999. Excluding advertising expenses, SG&A expenses decreased 7%, from 17.7% of sales in 1998 to 15.9% in 1999. R&D expenses decreased 23%, from 9.9% of sales in 1998 to 7.4% in 1999. The decrease in R&D reflects the formation of the NexPress joint venture, whose R&D investments were reclassified to other income (charges) during 1999.

Earnings from operations increased 13%, or 20% excluding the pre-tax charge of $20 million for CalComp (discussed previously), as higher sales volumes, manufacturing productivity, and cost reductions in SG&A and R&D more than offset lower effective selling prices. Net earnings increased 12%, primarily reflecting strong contributions from earnings from operations.

Health Imaging Sales of the Health Imaging segment increased 39% in 1999, primarily due to the acquisition of Imation's medical imaging business. Excluding the effect of the acquisition, sales increased 2%, as higher volumes more than offset lower effective selling prices. Sales inside the U.S. increased 43%, due primarily to the acquisition and higher volumes, offset by lower effective selling prices. Sales outside the U.S. increased 36%, due to the acquisition and higher volumes, partly offset by lower effective selling prices.

Worldwide analog film sales increased 19% over 1998, as higher volumes more than offset lower effective selling prices. Analog film sales inside the U.S. increased 9%, as higher volumes more than offset lower effective selling prices. Outside the U.S., analog film sales increased 25%, as higher volumes more than offset lower effective selling prices. Overall, significant volume growth worldwide is primarily attributable to the acquisition of Imation's medical imaging business.

Sales of digital products (including digital print film, laser printers and digital media) also benefited from the Imation acquisition, increasing 98% in 1999.

SG&A expenses increased 34% over 1998, due primarily to the acquisition of Imation's medical imaging business, but decreased as a percentage of sales from 20.7% in 1998 to 20.0% in 1999. Excluding advertising expenses, SG&A expenses increased 34%, but decreased from 19.7% of sales in 1998 to 19.1% in 1999. Excluding the 1998 Imation charge, R&D expenses increased 21%, but decreased from 6.9% of sales in 1998 to 6.0% in 1999.

Earnings from operations increased 46%, or 29% excluding from 1998 the pre-tax Imation charge of $45 million, as higher unit sales volumes, manufacturing productivity, and cost reductions in SG&A and R&D more than offset 1999's lower effective selling prices. Net earnings increased 54%, or 27% excluding from 1998 the charges for Imation and litigation, as a result of the increase in earnings from operations.

Other Imaging Sales in the Other Imaging segment decreased 8% in 1999, as higher unit volumes were more than offset by portfolio changes (primarily the sale of the Office Imaging business) and lower effective selling prices. Excluding the impact of portfolio adjustments, segment sales increased 5%. Sales of digital cameras and CD media increased significantly, while sales of motion picture films decreased due to softness in the motion picture industry. Sales inside the U.S. decreased 16%, as decreases from portfolio changes more than offset higher volumes. Sales outside the U.S. increased 1%, as higher volumes more than offset lower effective selling prices.

Worldwide digital camera sales increased 97%, as significantly higher volumes were only slightly offset by lower effective selling prices. Digital camera sales inside the U.S. increased 106%, due to higher volumes. Outside the U.S., sales increased

87%, as considerably higher volumes were only partially mitigated by lower effective selling prices.

SG&A expenses decreased 17%, from 22.8% of sales in 1998 to 20.6% in 1999. Excluding advertising expenses, SG&A expenses decreased 19%, from 19.8% of sales in 1998 to 17.4% in 1999. R&D expenses decreased 11%, from 8.0% of sales in 1998 to 7.7% in 1999.

Earnings from operations increased 25% in 1999. Excluding special charges in both 1998 and 1999, earnings from operations decreased 2%, as higher volumes and manufacturing productivity were offset by lower effective selling prices and the unfavorable effects of exchange. Net earnings increased 37%, but decreased 21% excluding special charges and credits from both years. This decrease reflects lower earnings from operations and lower gains on sales of properties.

Restructuring Programs

The Company recorded a $350 million pre-tax restructuring charge in the third quarter of 1999. Actions under this program were effectively completed in 2000. The Company realized approximate savings associated with this program of $90 million in 2000, and expects an additional $50 million of savings in 2001, resulting in a total annual run-rate savings of $140 million. The Company anticipates recovering the net cash cost of this program in two years. Approximately 2,900 positions were eliminated worldwide under this program (see Note 11, Restructuring Programs and Cost Reduction).

Outlook

The Company expects the overall slowdown in the U.S. economy and the corresponding industry-wide decrease in photographic activity to continue through the first two quarters of 2001 before recovering in the second half of the year. The Company will continue to take actions to minimize the financial impact of this slowdown. These actions include efforts to better manage production and inventory levels while at the same time reducing discretionary spending to further hold down costs. The Company will also consider additional actions, including reductions in staff in certain areas of the Company, aimed at making its operations more cost competitive and improving margins.

During 2000, the Company completed an ongoing program of real estate divestitures and portfolio rationalization that contributed to other income (charges) reaching an annual average of $100 million over the past three years. Now that this program is largely complete, the other income (charges) category is expected to run in the $0 to negative $50 million range annually.

The Company expects a 1% reduction in its effective tax rate from 34% in 2000 to 33% in 2001. This reduction was reflected in the earnings guidance issued January 17th, 2001.

From a liquidity and capital resource perspective, the Company will look to reduce its debt levels by focusing on increasing cash flow, lowering capital spending and reducing inventory and receivable levels.

The Euro

The Treaty on European Union provided that an economic and monetary union (EMU) be established in Europe whereby a single European currency, the Euro, replaces the currencies of participating member states. The Euro was introduced on January 1, 1999, at which time the value of participating member state currencies was irrevocably fixed against the Euro and the European Currency Unit (ECU) was replaced at the rate of one Euro to one ECU. For the three-year transitional period ending December 31, 2001, the national currencies of member states will continue to circulate, but as sub-units of the Euro. New public debt will be issued in Euros and existing debt may be redenominated into Euros. At the end of the transitional period, Euro banknotes and coins will be issued, and the national currencies of the member states will cease to be legal tender no later than June 30, 2002. The countries that adopted the Euro on January 1, 1999 are Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, Portugal, and Spain. Greece will now be part of the transition. The Company has operations in all of these countries.

As a result of the Euro conversion, it is possible that selling prices of the Company's products and services will experience downward pressure, as current price variations among countries are reduced due to easy comparability of Euro prices across countries. Prices will tend to harmonize, although value added taxes and transportation costs will still justify price differentials. Adoption of the Euro will probably accelerate existing market and pricing trends including pan-European buying and general price erosion.

On the other hand, currency exchange and hedging costs will be reduced; lower prices and pan-European buying will benefit the Company in its purchasing endeavors; the number of banks and suppliers needed will be reduced; there will be less variation in payment terms; and it will be easier for the Company to expand into new marketing channels such as mail order and Internet marketing.

The Company is in the process of making changes in areas such as marketing and pricing, purchasing, contracts, payroll, taxes, cash management and treasury operations. Under the 'no compulsion no prohibition' rules, billing systems have been modified so that the Company is now able to show total gross, value added tax, and net in Euros on national currency invoices. This enables customers to pay in the new Euro currency if they wish to do so. Countries that have installed ERP/SAP software in connection with the Company's enterprise resource planning project are able to invoice and receive payments in Euros as well as in other currencies. Systems for pricing, payroll and expense reimbursements will continue to use national currencies until year-end 2001. The functional currencies of the Company's operations in affected countries will remain the national currencies until approximately May 2001 (except Germany and Austria (November 2001)), when they will change to the Euro. Systems changes for countries not on SAP (Finland and Greece) are also being implemented in 2001.

Liquidity and Capital Resources

Net cash provided by operating activities in 2000 was $982 million, as net earnings of $1,407 million, adjusted for depreciation and amortization, provided $2,296 million of operating cash. This was partially offset by increases in receivables of $247 million, largely due to the timing of sales late in the fourth quarter; increases in inventories of $282 million, reflecting lower than expected sales performance in the second half of the year particularly consumer films and paper and consumer digital camera sales; and decreases in liabilities (excluding borrowings) of $755 million related primarily to severance payments for restructuring programs and reductions in accounts payable and accrued benefit costs. Net cash used in investing activities of $783 million in 2000 was utilized primarily for capital expenditures of $945 million and business acquisitions of $130 million, partially offset by proceeds of $276 million from sales of businesses/assets. Net cash used in financing activities of $314 million in 2000 was the result of stock repurchases and dividend payments, largely funded by net increases in borrowings of $1,313 million.

Cash dividends per share of $1.76, payable quarterly, were declared in each of the years 2000, 1999 and 1998. Total cash dividends of approximately $545 million, $563 million and $569 million were paid in 2000, 1999 and 1998, respectively.

Net working capital (excluding short-term borrowings) increased to $1,482 million from $838 million at year-end 1999. This increase is mainly attributable to lower payable levels and higher receivable and inventory balances, as discussed above.

Capital additions were $945 million in 2000, with the majority of the spending supporting manufacturing productivity and quality improvements, new products including e-Commerce initiatives, digital photofinishing and digital cameras, and ongoing environmental and safety spending. In 2001, the Company expects to reduce its capital spending (excluding acquisitions) from its 2000 spending levels. Capital additions by segment are included in Note 17, Segment Information.

Under its stock repurchase programs, the Company repurchased $1,099 million, $925 million and $258 million of its shares in 2000, 1999 and 1998, respectively. During the second quarter of 1999, the Company completed stock repurchases under its 1996 $2 billion authorization. That program, initiated in May 1996, resulted in 26.8 million shares being repurchased. Under the $2 billion program announced on April 15, 1999, the Company repurchased an additional 21.6 million shares for $1,099 million in 2000 and 9.8 million shares for $656 million in 1999. On December 7, 2000, Kodak's board of directors authorized the repurchase of up to an additional $2 billion of the Company's stock over the next 4 years.

The Company has access to a $3.5 billion revolving credit facility expiring in November 2001. The Company also has a shelf registration statement for debt securities with an available balance of $1.9 billion.

See Note 8, Commitments and Contingencies, for other commitments of the Company.

Other

Kodak is subject to various laws and governmental regulations concerning environmental matters. See Note 8, Commitments and Contingencies.

Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995

Certain statements in this report may be forward-looking in nature, or "forward-looking statements" as defined in the United States Private Securities Litigation Reform Act of 1995. For example, references to the Company's earnings per share expectations for 2001 are forward-looking statements.

Actual results may differ from those expressed or implied in forward-looking statements. The forward-looking statements contained in this report are subject to a number of risk factors, including: the Company's ability to implement its product strategies (including its category expansion and digitization strategies and its plans for digital products and Advantix products), to develop its e-commerce strategies, and to complete information systems upgrades; the successful completion of various portfolio actions; the ability of the Company to reduce inventories, improve receivables performance, and reduce capital expenditures; the inherent unpredictability of currency fluctuations and raw material costs; competitive actions, including pricing; the ability to reduce spending and realize operating efficiencies, including a significant reduction in SKU's; the ability to achieve planned improvements in Kodak Professional; the nature and pace of technology substitution; the ability of the Company to develop its business in emerging markets like China and India; general economic and business conditions, including the timing of a business upturn; and other factors disclosed previously and from time to time in the Company's filings with the Securities and Exchange Commission.

Any forward-looking statements in this report should be evaluated in light of these important risk factors.

Market Price Data

	2000		1999	
Price per share:	High	Low	High	Low
1st Qtr.	$67.50	$53.31	$80.38	$62.31
2nd Qtr.	63.63	53.19	79.81	60.81
3rd Qtr.	65.69	39.75	78.25	68.25
4th Qtr.	48.50	35.31	77.50	56.63

Summary of Operating Data

A summary of operating data for 2000 and for the four years prior is shown on page 64.

Quantitative and Qualitative Disclosures about Market Risk

The Company, as a result of its global operating and financing activities, is exposed to changes in foreign currency exchange rates, commodity prices, and interest rates, which may adversely affect its results of operations and financial position. In seeking to minimize the risks and/or costs associated with such activities, the Company may enter into derivative contracts. See also Note 9, Financial Instruments.

On January 1, 2000, the Company adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement requires that an entity recognize all derivatives as either assets or liabilities and measure those instruments at fair value. If certain conditions are met, a derivative may be designated as a hedge. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

The transition adjustment was a pre-tax loss of $1 million ($1 million after tax) recorded in other income (charges) for marking foreign exchange forward contracts to fair value, and a pre-tax gain of $3 million ($2 million after tax) recorded in other comprehensive income for marking silver forward contracts to fair value. These items were not displayed in separate captions as cumulative effects of a change in accounting principle, due to their immateriality. The fair value of the contracts is reported in other current assets or in current payables.

The Company has entered into foreign currency forward contracts that are designated as cash flow hedges of exchange rate risk related to forecasted foreign currency denominated intercompany sales. At December 31, 2000, the Company had cash flow hedges for the Euro, the Canadian dollar, and the Australian dollar, with maturity dates ranging from January 2001 to December 2001.

At December 31, 2000, the fair value of all open foreign currency forward contracts was a pre-tax unrealized loss of $44 million. Of this pre-tax loss, $42 million has been deferred as a part of other comprehensive income while $2 million has been charged to other income (charges) on the Company's Consolidated Statement of Earnings. Additionally, realized gains of approximately $2 million (pre-tax), related to closed foreign currency contracts, have been deferred in other comprehensive income. If all amounts deferred to other comprehensive income were to be realized, approximately $39 million would be reclassified into cost of goods sold over the next twelve months, based on sales to third parties. During the year, a realized gain of $9 million (pre-tax) was reclassified from other comprehensive income to cost of goods sold. Hedge ineffectiveness was insignificant.

The Company does not apply hedge accounting to the foreign currency forward contracts used to offset currency-related changes in the fair value of foreign currency denominated assets and liabilities. These contracts are marked to market through earnings at the same time that the exposed assets and liabilities are remeasured through earnings (both in other income). The majority of the contracts held by the Company are denominated in Euros, Australian dollars, Chinese renminbi, Canadian dollars, and British pounds.

A sensitivity analysis indicates that if foreign currency exchange rates at December 31, 2000 and 1999 increased 10%, the Company would incur losses of $88 million and $87 million on foreign currency forward contracts outstanding at December 31, 2000 and 1999, respectively. Such losses would be substantially offset by gains from the revaluation or settlement of the underlying positions hedged.

The Company has entered into silver forward contracts that are designated as cash flow hedges of price risk related to forecasted worldwide silver purchases. The Company used silver forward contracts to minimize virtually all of its exposure to increases in silver prices in 2000. At December 31, 2000, the Company had open forward contracts, with maturity dates ranging from January 2001 to December 2001, hedging virtually all of its planned silver requirements through the fourth quarter of 2001.

At December 31, 2000, the fair value of open contracts was a pre-tax unrealized loss of $17 million, recorded in other comprehensive income. If this amount were to be realized, $16 million (pre-tax) of this loss would be reclassified into cost of goods sold within the next twelve months. During the year, a realized loss of $3 million (pre-tax) was recorded in cost of goods sold. At December 31, 2000, realized losses of $4 million (pre-tax), related to closed silver contracts, were recorded in other comprehensive income. These losses will be reclassified into cost of goods sold as silver-containing products are sold (all within the next twelve months). Hedge ineffectiveness was insignificant.

A sensitivity analysis indicates that, based on broker-quoted termination values, if the price of silver decreased 10% from spot rates at December 31, 2000 and 1999, the fair value of silver forward contracts would be reduced by $27 million and $5 million, respectively. Such losses in fair value, if realized, would be offset by lower costs of manufacturing silver-containing products.

The Company is exposed to interest rate risk primarily through its borrowing activities and, to a lesser extent, through investments in marketable securities. The Company utilizes U.S. dollar denominated as well as foreign currency denominated borrowings to fund its working capital and investment needs. The majority of short-term and long-term borrowings are in fixed rate instruments. There is inherent roll-over risk for borrowings and marketable securities as they mature and are renewed at current market rates. The extent of this risk is not predictable because of the variability of future interest rates and business financing requirements.

Using a yield-to-maturity analysis, if December 31, 2000 interest rates increased 10% (about 62 basis points) with the current period's level of debt, the fair value of short-term and long-term borrowings would decrease $2 million and $20 million, respectively. If December 31, 1999 interest rates increased 10% (about 55 basis points) with the December 31, 1999 level of debt, the fair value of short-term and long-term borrowings would decrease $1 million and $18 million, respectively.

The Company's financial instrument counterparties are high quality investment or commercial banks with significant experience with such instruments. The Company manages exposure to counterparty credit risk by requiring specific minimum credit standards and diversification of counterparties. The Company has procedures to monitor the credit exposure amounts. The maximum credit exposure at December 31, 2000 was not significant to the Company.

Management's Responsibility for Financial Statements

Management is responsible for the preparation and integrity of the consolidated financial statements and related notes which appear on pages 42 through 63. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, and include certain amounts that are based on management's best estimates and judgments.

The Company's accounting systems include extensive internal controls designed to provide reasonable assurance of the reliability of its financial records and the proper safeguarding and use of its assets. Such controls are based on established policies and procedures, are implemented by trained, skilled personnel with an appropriate segregation of duties, and are monitored through a comprehensive internal audit program. The Company's policies and procedures prescribe that the Company and all employees are to maintain the highest ethical standards and that its business practices throughout the world are to be conducted in a manner which is above reproach.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, independent accountants, who were responsible for conducting their audits in accordance with auditing standards generally accepted in the United States of America. Their resulting report follows.

The Board of Directors exercises its responsibility for these financial statements through its Audit Committee, which consists entirely of non-management Board members. The independent accountants and internal auditors have full and free access to the Audit Committee. The Audit Committee meets periodically with the independent accountants and the Director of Corporate Auditing, both privately and with management present, to discuss accounting, auditing and financial reporting matters.

Robert H. Brust

Chief Financial Officer, and
Executive Vice President
January 15, 2001

Dan Carp

Chairman, President and
Chief Executive Officer
January 15, 2001

Report of Independent Accountants

To the Board of Directors and Shareholders of Eastman Kodak Company

In our opinion, the accompanying consolidated financial statements appearing on pages 42 through 63 of this Annual Report present fairly, in all material respects, the financial position of Eastman Kodak Company and subsidiary companies (Kodak) at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Rochester, New York
January 15, 2001

Consolidated Statement of Earnings

For the Year Ended December 31, (in millions, except per share data)	2000	1999	1998
Sales	$ 13,994	$ 14,089	$ 13,406
Cost of goods sold	8,019	7,987	7,293
Gross profit	5,975	6,102	6,113
Selling, general and administrative expenses	2,977	3,295	3,303
Research and development costs	784	817	922
Earnings from operations	2,214	1,990	1,888
Interest expense	178	142	110
Other income (charges)	96	261	328
Earnings before income taxes	2,132	2,109	2,106
Provision for income taxes	725	717	716
Net earnings	$ 1,407	$ 1,392	$ 1,390
Basic earnings per share	$ 4.62	$ 4.38	$ 4.30
Diluted earnings per share	$ 4.59	$ 4.33	$ 4.24
Earnings used in basic and diluted earnings per share	$ 1,407	$ 1,392	$ 1,390
Number of common shares used in basic earnings per share	304.9	318.0	323.3
Incremental shares from assumed conversion of options	1.7	3.5	4.5
Number of common shares used in diluted earnings per share	306.6	321.5	327.8

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Financial Position

At December 31, (in millions, except share and per share data)	2000	1999
Assets		
Current Assets		
Cash and cash equivalents	$ 246	$ 373
Marketable securities	5	20
Receivables	2,653	2,537
Inventories	1,718	1,519
Deferred income tax charges	575	689
Other	294	306
Total current assets	5,491	5,444
Properties		
Land, buildings and equipment at cost	12,963	13,289
Less: Accumulated depreciation	7,044	7,342
Net properties	5,919	5,947
Other Assets		
Goodwill (net of accumulated amortization of $778 and $671)	947	982
Long-term receivables and other noncurrent assets	1,767	1,801
Deferred income tax charges	88	196
Total Assets	$ 14,212	$ 14,370
Liabilities and Shareholders' Equity		
Current Liabilities		
Payables	$ 3,275	$ 3,832
Short-term borrowings	2,206	1,163
Taxes — income and other	572	612
Dividends payable	128	139
Deferred income tax credits	34	23
Total current liabilities	6,215	5,769
Other Liabilities		
Long-term borrowings	1,166	936
Postemployment liabilities	2,610	2,776
Other long-term liabilities	732	918
Deferred income tax credits	61	59
Total Liabilities	10,784	10,458
Shareholders' Equity		
Common stock, par value $2.50 per share 950,000,000 shares authorized; issued 391,292,760 shares in 2000 and 1999	978	978
Additional paid in capital	871	889
Retained earnings	7,869	6,995
Accumulated other comprehensive loss	(482)	(145)
	9,236	8,717
Treasury stock, at cost 100,808,494 shares in 2000 and 80,871,830 shares in 1999	5,808	4,805
Total Shareholders' Equity	3,428	3,912
Total Liabilities and Shareholders' Equity	$ 14,212	$ 14,370

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Shareholders' Equity

(in millions, except number of shares)	Common Stock*	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Treasury Stock	Total
Shareholders' Equity December 31, 1997	$ 978	$ 914	$ 5,343	$ (202)	$ (3,872)	$ 3,161
Net earnings	–	–	1,390	–	–	1,390
Other comprehensive income (loss):						
Unrealized holding gains arising during the period ($122 million pre-tax)	–	–	–	–	–	80
Reclassification adjustment for gains included in net earnings ($66 million pre-tax)	–	–	–	–	–	(44)
Currency translation adjustments	–	–	–	–	–	59
Minimum pension liability adjustment ($7 million pre-tax)	–	–	–	–	–	(4)
Other comprehensive income	–	–	–	91	–	91
Comprehensive income	–	–	–	–	–	1,481
Cash dividends declared	–	–	(570)	–	–	(570)
Treasury stock repurchased (3,541,295 shares)	–	–	–	–	(258)	(258)
Treasury stock issued under employee plans (3,272,713 shares)	–	(58)	–	–	186	128
Tax reductions — employee plans	–	46	–	–	–	46
Shareholders' Equity December 31, 1998	978	902	6,163	(111)	(3,944)	3,988
Net earnings	–	–	1,392	–	–	1,392
Other comprehensive income (loss):						
Unrealized holding gains arising during the period ($115 million pre-tax)	–	–	–	–	–	83
Reclassification adjustment for gains included in net earnings ($20 million pre-tax)	–	–	–	–	–	(13)
Currency translation adjustments	–	–	–	–	–	(118)
Minimum pension liability adjustment ($26 million pre-tax)	–	–	–	–	–	14
Other comprehensive loss	–	–	–	(34)	–	(34)
Comprehensive income	–	–	–	–	–	1,358
Cash dividends declared	–	–	(560)	–	–	(560)
Treasury stock repurchased (13,482,648 shares)	–	–	–	–	(925)	(925)
Treasury stock issued under employee plans (1,105,220 shares)	–	(24)	–	–	64	40
Tax reductions — employee plans	–	11	–	–	–	11
Shareholders' Equity December 31, 1999	978	889	6,995	(145)	(4,805)	3,912
Net earnings	–	–	1,407	–	–	1,407
Other comprehensive income (loss):						
Unrealized holding loss arising during the period ($77 million pre-tax)	–	–	–	–	–	(48)
Reclassification adjustment for gains included in net earnings ($94 million pre-tax)	–	–	–	–	–	(58)
Unrealized loss arising from hedging activity ($55 million pre-tax)	–	–	–	–	–	(34)
Reclassification adjustment for hedging related gains included in net earnings ($6 million pre-tax)	–	–	–	–	–	(4)
Currency translation adjustments	–	–	–	–	–	(194)
Minimum pension liability adjustment ($2 million pre-tax)	–	–	–	–	–	1
Other comprehensive loss	–	–	–	(337)	–	(337)
Comprehensive income	–	–	–	–	–	1,070
Cash dividends declared	–	–	(533)	–	–	(533)
Treasury stock repurchased (21,575,536 shares)	–	–	–	–	(1,099)	(1,099)
Treasury stock issued under employee plans (1,638,872 shares)	–	(33)	–	–	96	63
Tax reductions — employee plans	–	15	–	–	–	15
Shareholders' Equity December 31, 2000	$ 978	$ 871	$ 7,869	$ (482)	$ (5,808)	$ 3,428

*There are 100 million shares of $10 par value preferred stock authorized, none of which have been issued.

Accumulated unrealized holding gains, related to available for sale securities, as of December 31, 2000, 1999 and 1998 were $7 million, $113 million, and $43 million, respectively. Accumulated unrealized losses related to hedging activity as of December 31, 2000 were $(38). Accumulated translation adjustments as of December 31, 2000, 1999 and 1998 were $(425) million, $(231) million and $(113) million, respectively. Accumulated minimum pension liability adjustments as of December 31, 2000, 1999 and 1998 were $(26) million, $(27) million and $(41) million, respectively.

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the Year Ended December 31, (in millions)	2000	1999	1998
Cash flows from operating activities:			
Net earnings	$ 1,407	$ 1,392	$ 1,390
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	889	918	853
Gains on sales of businesses/assets	(117)	(162)	(166)
Restructuring costs, asset impairments and other charges	–	453	42
Provision for deferred income taxes	235	247	202
Increase in receivables	(247)	(121)	(1)
Increase in inventories	(282)	(201)	(43)
Decrease in liabilities excluding borrowings	(755)	(478)	(516)
Other items, net	(148)	(115)	(278)
Total adjustments	(425)	541	93
Net cash provided by operating activities	982	1,933	1,483
Cash flows from investing activities:			
Additions to properties	(945)	(1,127)	(1,108)
Proceeds from sales of businesses/assets	276	468	297
Cash flows related to sales of businesses	1	(46)	(59)
Acquisitions, net of cash acquired	(130)	(3)	(949)
Marketable securities — sales	84	127	162
Marketable securities — purchases	(69)	(104)	(182)
Net cash used in investing activities	(783)	(685)	(1,839)
Cash flows from financing activities:			
Net increase (decrease) in borrowings with original maturities of 90 days or less	939	(136)	894
Proceeds from other borrowings	1,310	1,343	1,133
Repayment of other borrowings	(936)	(1,118)	(1,251)
Dividends to shareholders	(545)	(563)	(569)
Exercise of employee stock options	43	44	128
Stock repurchase programs	(1,125)	(897)	(258)
Net cash (used in) provided by financing activities	(314)	(1,327)	77
Effect of exchange rate changes on cash	(12)	(5)	8
Net decrease in cash and cash equivalents	(127)	(84)	(271)
Cash and cash equivalents, beginning of year	373	457	728
Cash and cash equivalents, end of year	$ 246	$ 373	$ 457
Supplemental Cash Flow Information			
Cash paid for interest and income taxes was:			
Interest, net of portion capitalized of $40, $36 and $41	$ 166	$ 120	$ 90
Income taxes	486	445	498
The following transactions are not reflected in the Consolidated Statement of Cash Flows:			
Contribution of assets to Kodak Polychrome Graphics joint venture	$ –	$ 13	$ –
Minimum pension liability adjustment	(1)	(14)	4
Liabilities assumed in acquisitions	31	–	473

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

Note 1: Significant Accounting Policies

Company Operations Eastman Kodak Company (the Company or Kodak) is engaged primarily in developing, manufacturing, and marketing consumer, professional, health and other imaging products and services. The Company's products are manufactured in a number of countries in North and South America, Europe, Australia and Asia. The Company's products are marketed and sold in many countries throughout the world.

Basis of Consolidation The consolidated financial statements include the accounts of Eastman Kodak Company and its majority owned subsidiary companies. Intercompany transactions are eliminated and net earnings are reduced by the portion of the earnings of subsidiaries applicable to minority interests. The equity method of accounting is used for investments in associated companies over which Kodak does not have effective control.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at year end and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency For most subsidiaries and branches outside the U.S., the local currency is the functional currency and translation adjustments are accumulated in a separate component of shareholders' equity. Translation adjustments are not tax-effected since they relate to investments which are permanent in nature.

For subsidiaries and branches that operate in U.S. dollars or whose economic environment is highly inflationary, the U.S. dollar is the functional currency.

The effects of foreign currency transactions, including related hedging activities, were losses of $13 million, $2 million, and $20 million in the years 2000, 1999, and 1998, respectively.

Cash Equivalents All highly liquid investments with an original maturity of three months or less at date of purchase are considered to be cash equivalents.

Marketable Securities and Noncurrent Investments At December 31, 2000, investments of $5 million, which were included in marketable securities, were considered held to maturity. Long-term marketable securities and other investments of $44 million, which were included in other noncurrent assets, were considered available for sale.

At December 31, 1999, investments of $10 million, which were included in marketable securities, were considered held to maturity. Investments of $10 million included in marketable securities, and $117 million of long-term marketable securities and other investments which were included in other noncurrent assets, were considered available for sale.

Inventories Inventories are valued at cost, which is not in excess of market. The cost of most inventories in the U.S. is determined by the "last-in, first-out" (LIFO) method. The cost of other inventories is determined by the "first-in, first-out" (FIFO) or average cost method, which approximates current cost. The Company provides inventory reserves for excess, obsolete or slow-moving inventory based on changes in customer demand, technology developments or other economic factors.

Properties Properties are recorded at cost net of accumulated depreciation. Depreciation expense is provided based on historical cost and estimated useful lives ranging from approximately three years to fifty years for buildings and building equipment and three years to twenty years for machinery and equipment. The Company generally uses the straight-line method for calculating the provision for depreciation.

Goodwill Goodwill is charged to earnings on a straight-line basis over the period estimated to be benefited, generally ten years. The Company regularly assesses all of its long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable, in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This is accomplished by comparing the estimated undiscounted future cash flows of the asset grouping with the respective carrying amount as of the date of assessment. Should aggregate future cash flows be less than the carrying value, a write-down would be required, measured as the difference between the carrying value and the discounted future cash flows.

Revenue The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, the products or the services have been provided to the customer, the sales price is fixed or determinable, and collectibility is reasonably assured.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101 "Revenue Recognition in Financial Statements." This guidance summarizes the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. This staff bulletin had no significant impact on the Company's revenue recognition policy or results of operations.

Research and Development Costs Product development costs are charged to operations during the period incurred.

Advertising Advertising costs are expensed as incurred and included in selling, general and administrative expenses. Advertising expenses amounted to $701 million, $717 million and $756 million in 2000, 1999 and 1998, respectively.

Shipping and Handling Costs Shipping and handling costs of $253 million, $252 million, and $269 million in 2000, 1999, and 1998, respectively, are included in selling, general and administrative expenses on the Consolidated Statement of Earnings.

Environmental Costs Environmental expenditures that relate to current operations are expensed or capitalized, as appropriate, in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 96-1, "Environmental Remediation Liabilities." Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated.

Income Taxes Income tax expense is based on reported earnings before income taxes. Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes.

Earnings Per Share Earnings per share is presented in accordance with the provisions of SFAS No. 128, "Earnings Per Share." Basic earnings-per-share computations are based on the weighted-average number of shares of common stock outstanding during the year. Diluted earnings-per-share calculations reflect the assumed exercise and conversion of employee stock options.

Stock-Based Compensation The Company applies Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," which requires compensation costs to be recognized based on the difference, if any, between the quoted market price of the stock on the grant date and the exercise price.

In March 2000, the FASB issued FASB Interpretation (FIN) No. 44 "Accounting for Certain Transactions Involving Stock Compensation," which clarifies the application of APB No. 25 for certain issues. The interpretation was effective July 1, 2000, except for the provisions that relate to modifications that directly or indirectly reduce the exercise price of an award and the definition of an employee, which are effective after December 15, 1998. The adoption of FIN No. 44 had no significant impact on the Company's financial statements.

Segment Reporting The Company reports segment information in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company has four operating segments. The basis for determining the Company's operating segments is the manner in which financial information is used by the Company in its operations. Management operates and organizes itself according to business units which comprise unique products and services across geographic locations.

Reclassifications Certain reclassifications of prior financial information and related footnote amounts have been made to conform with the 2000 presentation.

Note 2: Receivables

(in millions)	2000	1999
Trade receivables	$ 2,245	$ 2,140
Miscellaneous receivables	408	397
Total (net of allowances of $89 and $136)	$ 2,653	$ 2,537

The Company sells to customers in a variety of industries, markets and geographies around the world. Receivables arising from these sales are generally not collateralized. Adequate provisions have been recorded for uncollectible receivables. There are no significant concentrations of credit risk.

Note 3: Inventories

(in millions)	2000	1999
At FIFO or average cost		
(approximates current cost)		
Finished goods	$ 1,155	$ 1,026
Work in process	423	487
Raw materials and supplies	589	471
	2,167	1,984
LIFO reserve	(449)	(465)
Total	$ 1,718	$ 1,519

Inventories valued on the LIFO method are approximately 47% and 48% of total inventories in 2000 and 1999, respectively.

Note 4: Properties

(in millions)	2000	1999
Land	$ 141	$ 166
Buildings and building equipment	2,285	2,579
Machinery and equipment	9,585	9,669
Construction in progress	952	875
	12,963	13,289
Accumulated depreciation	(7,044)	(7,342)
Net properties	$ 5,919	$ 5,947

Note 5: Payables and Short-Term Borrowings

(in millions)	2000	1999
Trade creditors	$ 817	$ 940
Accrued advertising and promotional expenses	578	548
Employment-related liabilities	780	912
Restructuring programs	–	362
Other	1,100	1,070
Total payables	$ 3,275	$ 3,832

Short-term bank borrowings totaled $2,206 million at year-end 2000 and $1,163 million at year-end 1999. Borrowings included $1,809 million and $894 million of commercial paper at year-end 2000 and 1999, respectively. The weighted-average interest rate of borrowings outstanding at year end was 6.4% in 2000 and 5.8% in 1999.

The Company has a $3.5 billion unused revolving credit facility established in 1996 and expiring in November 2001 which is available to support the Company's commercial paper program and for general corporate purposes. If unused, it has a commitment fee of $1.9 million per year, at the Company's current credit rating. Interest on amounts borrowed under this facility is calculated at rates based on spreads above certain reference rates.

Note 6: Long-Term Borrowings

Description and Interest Rates of 2000 Borrowings (in millions)	Maturity Dates of 2000 Borrowings	2000	1999
Notes:			
5.85%–8.25%	2001–2005	$ 473	$ 272
9.20%–9.95%	2003–2021	191	191
Debentures:			
1.98%–3.16%	2002–2004	61	122
Other:			
2.00%–17.00%	2001–2010	591	353
		1,316	938
Current maturities		(150)	(2)
Total		$ 1,166	$ 936

Annual maturities (in millions) of long-term borrowings outstanding at December 31, 2000 are as follows: 2001: $150; 2002: $73; 2003: $419; 2004: $366; 2005: $260; and 2006 and beyond: $48.

The Company has a shelf registration statement for debt securities with an available balance of $1.9 billion.

Note 7: Other Long-Term Liabilities

(in millions)	2000	1999
Deferred compensation	$ 146	$ 160
Minority interest in Kodak companies	93	98
Other	493	660
Total	$ 732	$ 918

Note 8: Commitments and Contingencies

Environmental Expenditures for pollution prevention and waste treatment for the Company's current manufacturing facilities were as follows:

(in millions)	2000	1999	1998
Recurring costs for managing hazardous substances and pollution prevention	$ 72	$ 69	$ 75
Capital expenditures to limit or monitor hazardous substances and pollutants	36	20	25
Site remediation costs	3	5	4
Total	$ 111	$ 94	$ 104

At December 31, 2000 and 1999, the Company's undiscounted accrued liabilities for environmental remediation costs amounted to $113 million and $124 million, respectively.

The Company anticipates the above expenditures to increase in the future. However, it is not expected that these costs will have an impact which is materially different from 2000's environmental expenditures on financial position, results of operations, cash flows or competitive position.

A Consent Decree was signed in 1994 in settlement of a civil complaint brought by the U.S. Environmental Protection Agency and the U.S. Department of Justice under which the Company is subject to a Compliance Schedule by which the Company improved its waste characterization procedures, upgraded one of its incinerators, and is evaluating and upgrading its industrial sewer system. The total expenditures required to complete this program are currently estimated to be approximately $33 million over the next eight years. These expenditures are primarily capital in nature.

The Company is presently designated as a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (the Superfund law), or under similar state laws, for environmental assessment and cleanup costs as the result of the Company's alleged arrangements for disposal of hazardous substances at approximately four active Superfund sites. With respect to each of these sites, the Company's actual or potential allocated share of responsibility is small. Furthermore, numerous other PRPs have also been designated at these sites and, although the law imposes joint and several liability on PRPs, as a practical matter, costs are shared with other PRPs. Settlements and costs paid by the Company in Superfund matters to date have not been material. Future costs are also not expected to be material to the Company's financial position or results of operations.

In addition to the foregoing environmental actions, the Company is currently implementing a Corrective Action Program required by the Resource Conservation and Recovery Act (RCRA) at the Kodak Park site in Rochester, NY. As part of this Program, the Company has completed the RCRA Facility Assessment (RFA), a broad-based environmental investigation of the site. The Company is currently in the process of completing, and in some cases has completed, RCRA Facility Investigations (RFIs) and Corrective Measures Studies (CMS) for areas at the site. Estimated future remediation costs are accrued by the Company and are included in remediation accruals recorded at December 31, 2000.

The Clean Air Act Amendments were enacted in 1990. Expenditures to comply with the Clean Air Act implementing regulations issued to date have not been material and have been primarily capital in nature. In addition, future expenditures for existing regulations, which are primarily capital in nature, are not expected to be material. Many of the regulations to be promulgated pursuant to this Act have not been issued.

The Company has retained certain obligations for environmental remediation and Superfund matters related to the non-imaging health businesses sold in 1994. Actions to fulfill these remedial obligations are not expected to be completed in the near term and costs related to the obligations are included in accruals recorded at December 31, 2000 and 1999. Also included in these accruals are responsibilities for the liabilities associated with the non-imaging health businesses as a PRP in approximately four active Superfund sites.

Other Commitments and Contingencies The Company has entered into agreements with several companies which provide Kodak with products and services to be used in its normal operations. The minimum payments for these agreements are approximately $198 million in 2001, $148 million in 2002, $128 million in 2003, $113 million in 2004, $79 million in 2005, and $201 million in 2006 and thereafter.

The Company has also guaranteed debt and other obligations under agreements with certain affiliated companies and customers. At December 31, 2000, these guarantees totaled approximately $250 million. The Company does not expect that these guarantees will have a material impact on the Company's future financial position or results of operations.

At December 31, 2000, the Company had outstanding letters of credit totaling $54 million to ensure the completion of environmental remediations and payment of possible casualty and Workers' Compensation claims.

Rental expense, net of minor sublease income, amounted to $155 million in 2000, $142 million in 1999 and $149 million in 1998. The approximate amounts of noncancelable lease commitments with terms of more than one year, principally for the rental of real property, reduced by minor sublease income, are $104 million in 2001, $78 million in 2002, $65 million in 2003, $33 million in 2004, $24 million in 2005, and $47 million in 2006 and thereafter.

The Company and its subsidiary companies are involved in lawsuits, claims, investigations and proceedings, including product liability, commercial, environmental, and health and safety matters, which are being handled and defended in the ordinary course of business. There are no such matters pending that the Company and its General Counsel expect to be material in relation to the Company's business, financial position or results of operations.

Note 9: Financial Instruments

The following table presents the carrying amounts and the estimated fair values of financial instruments at December 31, 2000 and 1999; ( ) denotes liabilities:

	2000		1999	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Marketable securities:				
Current	$ 5	$ 5	$ 20	$ 20
Long-term	48	53	93	93
Other investments	2	2	24	35
Long-term borrowings	(1,166)	(1,184)	(936)	(948)
Foreign currency forwards	(44)	(44)	(6)	(4)
Silver forwards	(17)	(17)	–	3

Marketable securities and other investments are valued at quoted market prices. The fair values of long-term borrowings were determined by reference to quoted market prices or by obtaining quotes from dealers. The fair values for the remaining financial instruments in the above table are based on dealer quotes and reflect the estimated amounts the Company would pay or receive to terminate the contracts. The carrying values of cash and cash equivalents, receivables, short-term borrowings and payables approximate their fair values.

The Company, as a result of its global operating and financing activities, is exposed to changes in foreign currency exchange rates, commodity prices, and interest rates which may adversely affect its results of operations and financial position. The Company manages such exposures, in part, with derivative financial instruments.

Foreign currency forward contracts are used to hedge existing foreign currency denominated assets and liabilities, especially those of the Company's International Treasury Center, as well as forecasted foreign currency denominated intercompany sales. Silver forward contracts are used to mitigate the Company's risk to fluctuating silver prices. The Company's exposure to changes in interest rates results from its investing and borrowing activities used to meet its liquidity needs. Long-term debt is generally used to finance long-term investments, while short-term debt is used to meet working capital requirements. Derivative instruments are not presently used to adjust the Company's interest rate risk profile. The Company does not utilize financial instruments for trading or other speculative purposes.

The Company's financial instrument counterparties are high-quality investment or commercial banks with significant experience with such instruments. The Company manages exposure to counterparty credit risk by requiring specific minimum credit standards and diversification of counterparties. The Company has procedures to monitor the credit exposure amounts. The maximum credit exposure at December 31, 2000 was not significant to the Company.

Note 10: Income Taxes

The components of earnings before income taxes and the related provision for U.S. and other income taxes were as follows:

(in millions)	2000	1999	1998
Earnings before income taxes			
U.S.	$ 1,294	$ 1,398	$ 1,578
Outside the U.S.	838	711	528
Total	$ 2,132	$ 2,109	$ 2,106
U.S. income taxes			
Current provision	$ 145	$ 185	$ 351
Deferred provision	225	215	136
Income taxes outside the U.S.			
Current provision	268	225	113
Deferred provision	37	23	61
State and other income taxes			
Current provision	35	60	50
Deferred provision	15	9	5
Total	$ 725	$ 717	$ 716

The differences between the provision for income taxes and income taxes computed using the U.S. federal income tax rate were as follows:

(in millions)	2000	1999	1998
Amount computed using the statutory rate	$ 746	$ 738	$ 737
Increase (reduction) in taxes resulting from:			
State and other income taxes	33	45	38
Goodwill amortization	40	36	28
Export sales and manufacturing credits	(48)	(45)	(39)
Operations outside the U.S.	(79)	(36)	(15)
Other, net	33	(21)	(33)
Provision for income taxes	$ 725	$ 717	$ 716

The significant components of deferred tax assets and liabilities were as follows:

(in millions)	2000	1999
Deferred tax assets		
Postemployment obligations	$ 916	$ 992
Restructuring programs	–	74
Inventories	139	153
Tax loss carryforwards	103	94
Other	884	905
	2,042	2,218
Valuation allowance	(103)	(94)
Total	$ 1,939	$ 2,124
Deferred tax liabilities		
Depreciation	$ 555	$ 527
Leasing	225	260
Other	591	534
Total	$ 1,371	$ 1,321

The valuation allowance is primarily attributable to certain net operating loss carryforwards outside the U.S. A majority of the net operating loss carryforwards are subject to a five-year expiration period.

Retained earnings of subsidiary companies outside the U.S. were approximately $1,574 million and $1,439 million at December 31, 2000 and 1999, respectively. Retained earnings at December 31, 2000 are considered to be reinvested indefinitely. If remitted, they would be substantially free of additional tax. It is not practicable to determine the deferred tax liability for temporary differences related to these retained earnings.

Note 11: Restructuring Programs and Cost Reduction

During the third quarter of 1999, the Company recorded a pre-tax restructuring charge of $350 million relating to worldwide manufacturing and photofinishing consolidation and reductions in selling, general and administrative positions worldwide. The Company recorded $236 million of the $350 million provision as cost of goods sold, primarily for employee severance costs, asset write-downs, and shutdown costs related to these actions. The remaining $114 million was recorded as SG&A for employee severance payments.

In the second quarter of 2000, the Company reversed approximately $44 million of severance related costs originally recorded as part of this program. The reversal was the result of two factors which occurred during the second quarter. First, certain manufacturing operations originally planned to be outsourced will now be retained, as cost beneficial arrangements for the Company could not be reached. Second, severance actions in Japan and Europe were completed at a cost less than originally estimated. Consequently, approximately 500 (450 manufacturing and 50 administrative) fewer employees were separated. Of the $44 million reversal, approximately $25 million was recorded in cost of goods sold and approximately $19 million was recorded as part of SG&A, consistent with where the original charges were recorded. Aside from the actions described above, all other projects included in this program were effectively completed by December 31, 2000. A total of 2,900 employees were terminated under this program.

In addition to the charges discussed above, the Company incurred pre-tax charges of approximately $50 million during 2000 for the accelerated depreciation of certain assets which remained in use until the Company sold its Elmgrove manufacturing facility in the second quarter, and related relocation costs. The sale of this facility did not result in a material gain or loss to the Company.

Also during 2000, the Company completed all planned actions related to a restructuring program which began in 1997. The actual cost to complete the 1997 program was in line with the Company's expectations.

Note 12: Retirement Plans

Substantially all U.S. employees are covered by a noncontributory plan, the Kodak Retirement Income Plan (KRIP), which is funded by Company contributions to an irrevocable trust fund. The funding policy for KRIP is to contribute amounts sufficient to meet minimum funding requirements as determined by employee benefit and tax laws plus additional amounts the Company determines to be appropriate. Generally, benefits are based on a formula recognizing length of service and final average earnings. Assets in the fund are held for the sole benefit of participating employees and retirees. The assets of the trust fund are comprised of corporate equity and debt securities, U.S. government securities, partnership and joint venture investments, interests in pooled funds, and various types of interest rate, foreign currency and equity market financial instruments. Kodak common stock represents approximately 4.0% of trust assets.

On March 25, 1999, the Company amended this plan to include a separate cash balance formula for all U.S. employees hired after February 1999. All U.S. employees hired prior to that date were granted the option to choose the KRIP plan or the Cash Balance Plus plan. Written elections were made by employees in 1999, and were effective January 1, 2000. The Cash Balance Plus plan credits employees' accounts with an amount equal to 4% of their pay, plus interest based on the 30-year treasury bond rate. In addition, for employees participating in this plan and the Company's defined contribution plan, the Savings and Investment Plan (SIP), the Company will match SIP contributions for an amount up to 3% of pay, for employee contributions of up to 5% of pay. As a result of employee elections to the Cash Balance Plus plan, the reductions in future pension expense will be almost entirely offset by the cost of matching employee contributions to SIP. The impact of the Cash Balance Plus plan is shown as a plan amendment.

Most subsidiaries and branches operating outside the U.S. have retirement plans covering substantially all employees. Contributions by the Company for these plans are typically deposited under government or other fiduciary-type arrangements. Retirement benefits are generally based on contractual agreements that provide for benefit formulas using years of service and/or compensation prior to retirement. The actuarial assumptions used for these plans reflect the diverse economic environments within the various countries in which the Company operates.

Changes in the Company's benefit obligation, plan assets and funded status for major plans are as follows:

(in millions)	2000 U.S.	2000 Non-U.S.	1999 U.S.	1999 Non-U.S.
Change in Benefit Obligation				
Projected benefit obligation at January 1	$ 5,798	$ 1,905	$ 6,523	$ 1,998
Service cost	89	33	107	33
Interest cost	408	107	426	111
Participant contributions	–	11	–	12
Plan amendment	(67)	(3)	–	–
Benefit payments	(578)	(104)	(876)	(118)
Actuarial gain	(115)	(33)	(370)	(69)
Settlements	–	(12)	–	–
Curtailments	(5)	–	(12)	(16)
Currency adjustments	–	(143)	–	(46)
Projected benefit obligation at December 31	$ 5,530	$ 1,761	$ 5,798	$ 1,905
Change in Plan Assets				
Fair value of plan assets at January 1	$ 7,340	$ 1,917	$ 6,543	$ 1,824
Actual return on plan assets	528	176	1,673	217
Employer contributions	–	35	–	33
Participant contributions	–	11	–	12
Benefit payments	(578)	(104)	(876)	(112)
Settlements	–	(12)	–	–
Currency adjustments	–	(143)	–	(49)
Other	–	–	–	(8)
Fair value of plan assets at December 31	$ 7,290	$ 1,880	$ 7,340	$ 1,917
Funded Status at December 31	$ 1,760	$ 118	$ 1,542	$ 12
Unamortized:				
Transition asset	(115)	(32)	(174)	(45)
Net (gain) loss	(1,323)	21	(1,251)	94
Prior service cost	3	12	72	23
Net amount recognized at December 31	$ 325	$ 119	$ 189	$ 84

Amounts recognized in the Statement of Financial Position for major plans are as follows:

(in millions)	2000 U.S.	2000 Non-U.S.	1999 U.S.	1999 Non-U.S.
Prepaid pension cost	$ 325	$ 139	$ 189	$ 111
Accrued benefit liability	–	(20)	–	(27)
Net amount recognized at December 31	$ 325	$ 119	$ 189	$ 84

Pension expense (income) for all plans included:

(in millions)	2000 U.S.	2000 Non-U.S.	1999 U.S.	1999 Non-U.S.	1998 U.S.	1998 Non-U.S.
Service cost	$ 89	$ 33	$ 107	$ 34	$ 122	$ 33
Interest cost	408	107	426	111	444	118
Expected return on plan assets	(572)	(147)	(537)	(137)	(551)	(137)
Amortization of:						
Transition asset	(59)	(10)	(59)	(10)	(60)	(9)
Prior service cost	1	8	10	8	12	8
Actuarial loss	–	3	2	10	11	5
	(133)	(6)	(51)	16	(22)	18
Curtailments	(3)	–	(1)	–	7	1
Settlements	–	1	–	–	–	1
Net pension (income) expense	(136)	(5)	(52)	16	(15)	20
Other plans including unfunded plans	41	69	33	51	36	46
Total net pension (income) expense	$ (95)	$ 64	$ (19)	$ 67	$ 21	$ 66

The Company recorded a $3 million curtailment gain in 2000 and a $9 million curtailment loss in 1999 as a result of the reduction in employees from the 1997 restructuring program. Additionally, the Company recorded a $10 million curtailment gain in 1999 as a result of the sale of the Office Imaging business, which was included in the gain on the sale.

The weighted assumptions used to compute pension amounts for major plans were as follows:

	2000 U.S.	2000 Non-U.S.	1999 U.S.	1999 Non-U.S.
Discount rate	7.5%	6.1%	7.5%	6.1%
Salary increase rate	4.3%	3.1%	4.3%	3.2%
Long-term rate of return on plan assets	9.5%	8.7%	9.5%	8.7%

The Company also sponsors an unfunded plan for certain U.S. employees, primarily executives. The benefits of this plan are obtained by applying KRIP provisions to all compensation, including amounts being deferred, and without regard to the legislated qualified plan maximums, reduced by benefits under KRIP. At December 31, 2000 and 1999, the projected benefit obligations of this plan amounted to $187 million and $192 million, respectively. The Company had recorded long-term liabilities at those dates of $171 million and $174 million, respectively. Pension expense recorded in 2000, 1999 and 1998 related to this plan was $34 million, $21 million and $26 million, respectively.

Note 13: Nonpension Postretirement Benefits

The Company provides healthcare, dental and life insurance benefits to U.S. eligible retirees and eligible survivors of retirees. In general, these benefits are provided to U.S. retirees that are covered by the Company's KRIP plan. These benefits are funded from the general assets of the Company as they are incurred. Certain non-U.S. subsidiaries offer healthcare benefits; however, the cost of such benefits is insignificant to the Company.

Changes in the Company's benefit obligation and funded status are as follows:

(in millions)	2000	1999
Net benefit obligation at beginning of year	$ 2,307	$ 2,280
Service cost	12	13
Interest cost	169	152
Plan participants' contributions	3	3
Plan amendments	62	(33)
Actuarial loss	229	70
Curtailments	1	(13)
Benefit payments	(181)	(165)
Net benefit obligation at end of year	$ 2,602	$ 2,307
Funded status at end of year	$ (2,602)	$ (2,307)
Unamortized net loss	700	491
Unamortized plan amendments	(510)	(646)
Net amount recognized and recorded at end of year	$ (2,412)	$ (2,462)

The weighted-average assumptions used to compute postretirement benefit amounts were as follows:

	2000	1999
Discount rate	7.5%	7.5%
Salary increase rate	4.3%	4.3%
Healthcare cost trend[a]	8.0%	8.5%

(a)decreasing to 5.0% by 2007

(in millions)	2000	1999	1998
Components of net postretirement benefit cost			
Service cost	$ 12	$ 13	$ 19
Interest cost	169	152	161
Amortization of:			
Prior service cost	(67)	(68)	(70)
Actuarial loss	18	8	16
	132	105	126
Curtailments	(6)	(90)	(103)
Total net postretirement benefit cost	$ 126	$ 15	$ 23

The Company recorded a $6 million and $71 million gain in 2000 and 1999, respectively, as a result of the reduction in employees in those years from the 1997 restructuring program. Additionally, the Company recorded a $15 million curtailment gain in 1999 as a result of the sale of the Office Imaging business, which was included in the gain on the sale, and a $4 million curtailment gain as part of the investment in the joint venture with NexPress.

The Company will no longer fund healthcare and dental benefits for employees who elected to participate in the Company's Cash Balance Plus plan, effective January 1, 2000. This change is not expected to have a material impact on the Company's future postretirement benefit cost.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	1% increase	1% decrease
Effect on total service and interest cost components	$ 6	$ (4)
Effect on postretirement benefit obligation	83	(52)

Note 14: Stock Option And Compensation Plans

The Company's stock incentive plans consist of the 2000 Omnibus Long-Term Compensation Plan (the 2000 Plan), the 1995 Omnibus Long-Term Compensation Plan (the 1995 Plan), and the 1990 Omnibus Long-Term Compensation Plan (the 1990 Plan). The Plans are administered by the Executive Compensation and Development Committee of the Board of Directors.

Under the 2000 Plan, 22 million shares of the Company's common stock may be granted to a variety of employees between January 1, 2000 and December 31, 2004. The 2000 Plan is substantially similar to, and is intended to replace, the 1995 Plan which expired on December 31, 1999.

Under the 1995 Plan, 22 million shares of the Company's common stock were eligible for grant to a variety of employees between February 1, 1995 and December 31, 1999. Option prices are not less than 100% of the per-share fair market value on the date of grant, and the options generally expire ten years from the date of grant, but may expire sooner if the optionee's employment terminates. The 1995 Plan also provides for Stock Appreciation Rights (SARs) to be granted, either in tandem with options or freestanding. SARs allow optionees to receive payment equal to the difference between the Company's stock market price on grant date and exercise date. At December 31, 2000, 229,215 freestanding SARs were outstanding at option prices ranging from $56.31 to $71.81.

Under the 1990 Plan, 22 million shares of the Company's common stock were eligible for grant to key employees between February 1, 1990 and January 31, 1995. Option prices could not be less than 50% of the per-share fair market value on the date of grant; however, no options below fair market value were granted. The options generally expire ten years from the date of grant, but may expire sooner if the optionee's employment terminates. The 1990 Plan also provided that options with dividend equivalents, tandem SARs and freestanding SARs could be granted. At December 31, 2000, 106,754 freestanding SARs were outstanding at option prices ranging from $32.50 to $44.50.

In April 1998, the Company made a grant of 100 stock options for common stock to most employees of the Company at that date (8,468,100 shares under options). The options were granted at fair market value on the date of grant and expire ten years from the grant date. The options have a two-year vesting period. The Executive Compensation and Development Committee of the Board of Directors approved the grant. A second grant of 100 stock options for common stock was made on March 13, 2000 to most employees of the Company at that date (7,004,400 shares under options). The options were granted at fair market value on the date of grant and expire ten years from the grant date. The options have a two-year vesting period.

Further information relating to options is as follows:

(Amounts in thousands, except per share amounts)	Shares Under Option	Range of Price Per Share
Outstanding on December 31, 1997	24,204	$30.25–$92.31
Granted	14,546	$59.00–$87.59
Exercised	3,208	$30.25–$82.00
Terminated, Canceled or Surrendered	1,211	$31.45–$83.38
Outstanding on December 31, 1998	34,331	$30.25–$92.31
Granted	4,276	$60.13–$79.63
Exercised	1,101	$30.25–$74.31
Terminated, Canceled or Surrendered	473	$31.45–$92.31
Outstanding on December 31, 1999	37,033	$30.25–$92.31
Granted	12,533	$37.25–$69.53
Exercised	1,326	$30.25–$58.63
Terminated, Canceled or Surrendered	3,394	$31.45–$90.50
Outstanding on December 31, 2000	44,846	$32.50–$92.31
Exercisable on December 31, 2000	28,783	$32.50–$92.31

Pro forma net earnings and earnings per share information, as required by SFAS No. 123, "Accounting for Stock-Based Compensation," has been determined as if the Company had accounted for employee stock options under SFAS No. 123's fair value method. The fair value of options was estimated at grant date using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2000	1999	1998
Risk free interest rates	6.2%	5.1%	5.6%
Expected option lives	7 years	7 years	7 years
Expected volatilities	29%	28%	27%
Expected dividend yields	3.19%	2.76%	2.71%

The weighted-average fair value of options granted was $16.79, $18.77 and $19.94 for 2000, 1999 and 1998, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period (2-3 years). The Company's pro forma information follows:

Year Ended December 31, (in millions, except per share data)	2000	1999	1998
Net earnings			
As reported	$ 1,407	$ 1,392	$ 1,390
Pro forma	1,346	1,263	1,272
Basic earnings per share			
As reported	$ 4.62	$ 4.38	$ 4.30
Pro forma	4.41	3.97	3.94
Diluted earnings per share			
As reported	$ 4.59	$ 4.33	$ 4.24
Pro forma	4.41	3.96	3.93

The following table summarizes information about stock options at December 31, 2000:
(Number of options in thousands)

Range of Exercise Prices			Options Outstanding			Options Exercisable	
At Least		Less Than	Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
$30	–	$45	6,889	2.73	$40.04	6,348	$40.02
$45	–	$60	13,433	7.94	$54.49	3,230	$54.18
$60	–	$75	21,406	7.07	$67.77	16,738	$68.37
$75	–	$90	996	6.77	$80.43	845	$80.96
Over $90			2,122	6.15	$90.19	1,622	$90.21
			44,846			28,783	

Note 15: Acquisitions and Joint Ventures

2000 During the second quarter, the Company acquired the remaining ownership interest in PictureVision, Inc. for cash and assumed liabilities with a total transaction value of approximately $90 million. PictureVision, the leading provider of digital imaging network services and solutions at retail, now operates as a wholly-owned subsidiary of the Company. Kodak has integrated the products and activities of its Picture Network, which provides consumers with an Internet-based digital imaging network service, with PictureVision's digital imaging service, PhotoNet. In relation to this acquisition, the Company's second quarter results included $10 million in charges for acquired in-process R&D and approximately $15 million for other acquisition-related charges. Goodwill related to this acquisition is being amortized over 7 years.

1999 In connection with the sale of the Company's digital printer, copier-duplicator, and roller assembly operations primarily associated with the Office Imaging business (See Note 16, Sales of Assets and Divestitures), the Company and Heidelberger Druckmaschinen AG (Heidelberg) also announced an agreement to expand their joint venture company, NexPress, to include the black-and-white electrophotographic business. The Company contributed R&D resources to NexPress, as well as its toner and developer operations in Rochester and Kirkby, England. This transaction did not have a material effect on the Company's results of operations or financial position in 1999. Kodak and Heidelberg established the NexPress joint venture in September 1997 for the purpose of developing and marketing new digital color printing solutions for the graphic arts industry. In connection with these arrangements, the Company serves as a supplier both to Heidelberg and NexPress for consumables such as photoconductors and raw materials for toner/developer manufacturing.

1998 On March 12, 1998, the Company acquired 51% of PictureVision Inc.'s stock for approximately $50 million. The acquisition was accounted for as a purchase and, accordingly, the operating results of the business have been included in the accompanying consolidated financial statements from the date of acquisition.

In February 1998, the Company contributed $308 million to Kodak (China) Company Limited (KCCL), a newly formed company operating in China, in exchange for 80% of the outstanding shares of the company. On March 25 and September 1, 1998, the new company acquired certain manufacturing assets of Shantou Era Photo Material Industry Corporation, a Chinese domestic photographic enterprise, for $159 million in cash and $22 million in debt payable in 2003. On March 26, 1998, KCCL acquired certain manufacturing assets of Xiamen Fuda Photographic Materials Company, Ltd., another Chinese domestic photographic enterprise, for $149 million.

In February 1998, the Company contributed $32 million to Kodak (Wuxi) Company Limited (KWCL), a newly formed company operating in China, in exchange for 70% of the outstanding shares of the business. On April 2, 1998, KWCL acquired part of the manufacturing assets of Wuxi Aermei Film and Chemical Corporation, a Chinese domestic photographic enterprise, for $11 million in cash and $21 million in debt payable in 1999.

The acquisitions by KCCL and KWCL were accounted for as purchases and, accordingly, the operating results of the acquired companies have been included in the accompanying consolidated financial statements from the dates of acquisition. Substantial portions of the purchase prices were allocated to goodwill, which is being amortized over a ten-year period.

On November 30, 1998, Kodak acquired certain assets and assumed certain liabilities of Imation's medical imaging business, including all of the outstanding shares of Imation's Cemax-Icon subsidiary, for approximately $530 million. At the date of acquisition, the business acquired by Kodak generated approximately $500 million in annual revenues. The transaction was accounted for by the purchase method and, accordingly, the operating results of the business have been included in the accompanying consolidated financial statements from the date of acquisition. A substantial portion of the purchase price was allocated to tangible assets and goodwill, which is being amortized over a ten-year period. See discussion regarding in-process R&D charges below.

Purchased In-process Research and Development Charges In connection with the 2000 PictureVision Inc. acquisition and the 1998 purchase of Imation's medical imaging business, the Company allocated $10 million and $42 million of the purchase price, respectively, to in-process R&D.

The Company used independent professional appraisal consultants to assess and allocate values to the in-process R&D. At the dates of the respective business combinations, the development of these projects had not yet reached technological feasibility and the R&D in progress had no alternative uses. Accordingly, these costs were expensed as of the respective acquisition dates.

The valuations were determined by the Company using the income approach. This methodology involves estimating the contribution of the purchased in-process technology to developing commercially viable products and estimating the resulting cash flows from the expected product sales of such products. The resulting cash flows were discounted to their present value using appropriate risk adjusted rates. Cash flows attributable to development efforts, including the completion of developments underway, and future versions of the product that have not yet been undertaken, were excluded in the valuation of in-process R&D. A contributory asset charge was applied for the use of working capital, fixed assets, developed technology and other intangibles. There were no material anticipated changes from historical pricing, margins, and expense trends.

The Company believes that the assumptions used in the forecasts were reasonable at the time of the respective business combinations. No assurance can be given, however, that the underlying assumptions used to estimate expected project sales, development costs or profitability, or the events associated with such projects, will transpire as estimated. For these reasons, actual results may vary from the projected results.

Management plans to continue supporting the viable remaining R&D programs and believes the Company has a reasonable chance of successfully completing the remaining R&D programs. However, there is a risk associated with the completion of the R&D projects and the Company cannot be assured that these projects will result in commercial success.

Without successful completion of the remaining R&D efforts on the acquired in-process technologies, the end result would be to fail to fulfill product design specifications and in turn fail to meet market requirements. As a result, the Company would not realize the future revenues and profits attributed to the acquired R&D. Ultimately, the Company would fail to realize the expected return on such investments. The failure of any particular individual in-process R&D project would not materially impact the Company's financial position or results of operations. Operating results are subject to uncertain market events and risks, which are beyond the Company's control, such as trends in technology, market size and growth, and product introduction or other actions by competitors.

PictureVision The in-process technology acquired from PictureVision primarily related to two projects: PhotoNet2 and the PhotoRamp valued at $16 million and $4 million. These projects resulted in a total in-process R&D charge of $10 million, reflecting the Company's 49% acquisition.

PhotoNet2, or P2, is an enhanced version of PictureVision's original PhotoNet system which will allow higher capacity and activity levels. PhotoNet essentially allows photofinishers to scan (digitize) rolls of film and upload the images to a branded web site that stores the images in a database for consumer use. The PhotoRamp is designed to provide digitization of existing photos as opposed to digitization of film and will support a variety of film types including 35mm, Advantix, 110, and 120 films.

The PhotoRamp was completed in 2000 and P2 is expected to be completed in 2001. The remaining costs to complete P2 are not anticipated to be material.

Imation Medical Imaging The in-process technology acquired from Imation consists of eight R&D projects within three broad technology groupings: Dry, Imagesetting, and Analog.

Work on all in-process technology projects related to this acquisition was concluded in 2000. The imagesetting projects were discontinued while cash inflows from the remaining acquired technology commenced in 2000. These inflows are expected to peak in 2001 and steadily decline through 2007.

Acquired developed technology of approximately $90 million was capitalized at acquisition date and is being amortized over seven years on a straight-line basis.

Note 16: Sales of Assets and Divestitures

1999 In April 1999, the Company sold its digital printer, copier-duplicator, and roller assembly operations primarily associated with its Office Imaging business, which included its operations in Rochester, NY, Muehlhausen, Germany and Tijuana, Mexico to Heidelberg for approximately $80 million. The transaction did not have a material effect on the Company's results of operations or financial position.

In November 1999, the Company sold The Image Bank, a wholly-owned subsidiary which markets and licenses image reproduction rights, to Getty Images, Inc. for $183 million in cash. As a result of this transaction, the Company recorded a pre-tax gain of $95 million in other income (charges).

In November 1999, the Company sold its Motion Analysis Systems Division, which manufactures digital cameras and digital video cameras for the automotive and industrial markets, to Roper Industries, Inc. for approximately $50 million in cash. As a result of this transaction, the Company recorded a pre-tax gain of $25 million in other income (charges).

1998 In June 1998, the Company sold part of its investment in Gretag Imaging Group, a Swiss manufacturer of film processing equipment, in connection with Gretag's initial public offering. The proceeds from the sale were $72 million and resulted in a pre-tax gain of $66 million in other income (charges).

On September 1, 1998, the Company sold all of its shares of Fox Photo, Inc. to Wolf Camera for an amount approximating the current value of Fox Photo's net assets.

On October 1, 1998, Elan Corporation, plc purchased from Kodak all the assets and liabilities of Kodak's subsidiary NanoSystems L.L.C., a drug delivery company, for approximately $150 million in a combination of $137 million cash and warrants to purchase ordinary shares in Elan. The Company recorded a pre-tax gain of $87 million in other income (charges) on the sale in the fourth quarter of 1998.

In the fourth quarter of 1998, financial difficulties on the part of Danka affected its ability to fulfill the original terms of certain of its agreements with the Company which were established in connection with the sale of the Office Imaging business in 1996. As a result, in December 1998, the Company's supply agreement and certain other agreements with Danka were terminated and interim arrangements for the supply by the Company to Danka of copier equipment, parts and supplies were established on a month-to-month basis. As a result of significant volume reductions by Danka, the Company was required to take action in the fourth quarter of 1998 that resulted in charges for employee severance (800 personnel) and write-downs of working capital and equipment. Such pre-tax charges amounted to $132 million and were recorded to cost of goods sold ($68 million) and SG&A expenses ($64 million). All actions with respect to this charge, including employee terminations, were completed by the Company in 1998.

Note 17: Segment Information

The Consumer Imaging segment derives revenues from photographic film, paper, chemicals, cameras, photoprocessing equipment, digitization services, and photoprocessing services sold to consumers. The Kodak Professional segment derives revenues from photographic film, paper, chemicals, and digital cameras sold to professional customers and graphics film products sold to the KPG joint venture. The Health Imaging segment derives revenues from medical film and processing equipment sold to healthcare organizations. The Other Imaging segment derives revenues from motion picture film sold to movie production and distribution companies, and microfilm equipment and media, printers, scanners, other business equipment, document imaging software, and consumer digital cameras and media sold to commercial and government customers.

Transactions between segments, which are immaterial, are made on a basis intended to reflect the market value of the products, recognizing prevailing market prices and distributor discounts. Differences between the reportable segments' operating results and net assets, and the Company's consolidated financial statements relate primarily to items held at the corporate level, and to other items excluded from segment operating measurements.

Segment financial information is shown below.

(in millions)	2000	1999	1998
Sales:			
Consumer Imaging	$ 7,406	$ 7,411	$ 7,164
Kodak Professional	1,706	1,910	1,840
Health Imaging	2,185	2,120	1,526
Other Imaging	2,697	2,648	2,876
Consolidated total	$ 13,994	$ 14,089	$ 13,406
Earnings from operations:			
Consumer Imaging	$ 1,179	$ 1,299	$ 1,080
Kodak Professional	261	374	330
Health Imaging	503	470	321
Other Imaging	227	197	157
Total of segments	2,170	2,340	1,888
Restructuring (charges) credits	44	(350)	–
Consolidated total	$ 2,214	$ 1,990	$ 1,888
Net earnings:			
Consumer Imaging	$ 860	$ 900	$ 785
Kodak Professional	111	265	237
Health Imaging	346	315	205
Other Imaging	161	222	162
Total of segments	1,478	1,702	1,389
Restructuring (charges) credits	44	(350)	–
Gain on sale of NanoSystems	–	–	87
Interest expense	(178)	(142)	(110)
Other corporate items	26	22	27
Income tax effects on above items and taxes not allocated to segments	37	160	(3)
Consolidated total	$ 1,407	$ 1,392	$ 1,390

(in millions)	2000	1999	1998
Operating net assets:			
Consumer Imaging	$ 5,188	$ 5,005	$ 4,856
Kodak Professional	1,531	1,636	1,591
Health Imaging	1,482	1,229	1,135
Other Imaging	1,343	1,074	1,173
Total of segments	9,544	8,944	8,755
LIFO inventory reserve	(449)	(465)	(491)
Cash and marketable securities	251	393	500
Dividends payable	(128)	(139)	(142)
Net deferred income tax (liabilities) and assets	(4)	191	457
Noncurrent other postemployment liabilities	(2,209)	(2,289)	(2,455)
Other corporate net assets	(205)	(624)	(614)
Consolidated net assets[1]	$ 6,800	$ 6,011	$ 6,010

(1) Consolidated net assets are derived from the Consolidated Statement of Financial Position, as follows:

(in millions)	2000	1999	1998
Total assets	$14,212	$ 14,370	$ 14,733
Total liabilities	10,784	10,458	10,745
Less: Short-term borrowings	(2,206)	(1,163)	(1,518)
Less: Long-term borrowings	(1,166)	(936)	(504)
Non-interest-bearing liabilities	7,412	8,359	8,723
Consolidated net assets	$ 6,800	$ 6,011	$ 6,010

(in millions)	2000	1999	1998
Depreciation expense:			
Consumer Imaging	$ 368	$ 396	$ 401
Kodak Professional	99	100	117
Health Imaging	92	82	51
Other Imaging	179	195	168
Consolidated total	$ 738	$ 773	$ 737
Goodwill amortization:			
Consumer Imaging	$ 77	$ 94	$ 77
Kodak Professional	13	13	10
Health Imaging	27	24	8
Other Imaging	34	14	21
Consolidated total	$ 151	$ 145	$ 116
Capital additions:			
Consumer Imaging	$ 507	$ 725	$ 622
Kodak Professional	123	147	143
Health Imaging	120	92	88
Other Imaging	195	163	255
Consolidated total	$ 945	$ 1,127	$ 1,108
Sales to external customers attributed to:(2)			
The United States	$ 6,800	$ 6,714	$ 6,417
Europe, Middle East and Africa	3,464	3,734	3,701
Asia Pacific	2,349	2,267	2,009
Canada and Latin America	1,381	1,374	1,279
Consolidated total	$ 13,994	$ 14,089	$ 13,406
Long-lived assets located in:			
The United States	$ 3,913	$ 3,904	$ 4,044
Europe, Middle East and Africa	647	715	861
Asia Pacific	1,056	1,024	704
Canada and Latin America	303	304	305
Consolidated total	$ 5,919	$ 5,947	$ 5,914

(2) Sales are reported in the geographic area in which they originate.

Note 18: Subsequent Events

On February 7, 2001, the Company completed its acquisition of substantially all of the imaging businesses of Bell & Howell Company. The purchase price of this stock and asset acquisition was $135 million in cash. The acquired units provide business customers worldwide with maintenance for document imaging components, micrographic-related equipment, supplies, parts and service.

Note 19: Quarterly Sales and Earnings Data—Unaudited

(in millions, except per share data)	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
2000				
Sales	$ 3,560	$ 3,590	$ 3,749	$ 3,095
Gross profit	1,327	1,603	1,706	1,339
Net earnings	194(1)	418(1)	506(1)	289(1)
Basic earnings per share(5)	.66	1.37	1.63	.93
Diluted earnings per share(5)	.66	1.36	1.62	.93
1999				
Sales	$ 3,799	$ 3,580	$ 3,610	$ 3,100
Gross profit	1,654	1,493	1,724	1,231
Net earnings	475(2)	235(3)	491	191(4)
Basic earnings per share(5)	1.51	.74	1.54	.59
Diluted earnings per share(5)	1.50	.73	1.52	.59

(1) Includes charges related to the sale and exit of a manufacturing facility of $11 million, $12 million, $18 million, and $9 million, which reduced net earnings by $7 million, $8 million, $12 million, and $6 million in the first, second, third and fourth quarters, respectively.

(2) Includes a gain of $95 million on the sale of The Image Bank, which increased net earnings by $63 million; a gain of $25 million on the sale of the Motion Analysis Systems Division, which increased net earnings by $16 million; and $11 million of charges related to the sale and exit of a manufacturing facility, which reduced net earnings by $7 million.

(3) Includes $350 million of restructuring costs, which reduced net earnings by $231 million.

(4) Includes $103 million of charges associated with business exits, which reduced net earnings by $68 million.

(5) Each quarter is calculated as a discrete period and the sum of the four quarters may not equal the full year amount.

Summary of Operating Data

(Dollar amounts and shares in millions, except per share data)	2000	1999	1998	1997	1996
Sales from continuing operations	$ 13,994	$ 14,089	$ 13,406	$ 14,538	$ 15,968
Earnings from operations	2,214	1,990	1,888	130	1,845
Earnings from continuing operations after tax	1,407(1)	1,392(2)	1,390(3)	5(5)	1,011(7)
Earnings from discontinued operations after tax	–	–	–	–	277
Net earnings	1,407(1)	1,392(2)	1,390(3)	5(5)	1,288(7)
Earnings and Dividends					
Net earnings					
— % of sales	10.1%	9.9%	10.4%	0.0%	8.1%
— % return on average shareholders' equity	38.3%	35.2%	38.9%	0.1%	26.1%
Basic earnings per share	4.62	4.38	4.30	.01	3.82(8)
Diluted earnings per share	4.59	4.33	4.24	.01	3.76(8)
Cash dividends declared					
— on common shares	533	560	570	577	539
— per common share	1.76	1.76	1.76	1.76	1.60
Common shares outstanding at year end	290.5	310.4	322.8	323.1	331.8
Shareholders at year end	113,308	131,719	129,495	135,132	137,092
Statement of Financial Position Data					
Working capital(9)	$ 1,482	$ 838	$ 939	$ 909	$ 2,089
Properties — net	5,919	5,947	5,914	5,509	5,422
Total assets	14,212	14,370	14,733	13,145	14,438
Short-term borrowings	2,206	1,163	1,518	611	541
Long-term borrowings	1,166	936	504	585	559
Total shareholders' equity	3,428	3,912	3,988	3,161	4,734
Supplemental Information					
Sales — Consumer Imaging	$ 7,406	$ 7,411	$ 7,164	$ 7,681	$ 7,659
— Kodak Professional	1,706	1,910	1,840	2,272	2,367
— Health Imaging	2,185	2,120	1,526	1,532	1,627
— Other Imaging	2,697	2,648	2,876	3,053	4,315
Research and development costs	784	817	922(4)	1,230(6)	1,028
Depreciation	738	773	737	748	837
Taxes (excludes payroll, sales and excise taxes)	933	806	809	164	663
Wages, salaries and employee benefits	3,726	3,962	4,306	4,985	5,110
Employees at year end					
— in the U.S.	43,200	43,300	46,300	54,800	53,400
— worldwide	78,400	80,650	86,200	97,500	94,800

(1) Includes charges related to the sale and exit of a manufacturing facility of $50 million, which reduced net earnings by $33 million.

(2) Includes $350 million of restructuring charges, which reduced net earnings by $231 million, and an additional $11 million of charges related to this restructuring program, which reduced net earnings by $7 million; $103 million of charges associated with business exits, which reduced net earnings by $68 million; a gain of $95 million on the sale of The Image Bank, which increased net earnings by $63 million; and a gain of $25 million on the sale of the Motion Analysis Systems Division, which increased net earnings by $16 million.

(3) Includes $35 million of litigation charges, which reduced net earnings by $23 million; $132 million of Office Imaging charges, which reduced net earnings by $87 million; $45 million primarily for a write-off of in-process R&D associated with the Imation acquisition, which reduced net earnings by $30 million; a gain of $87 million on the sale of NanoSystems, which increased net earnings by $57 million; and a gain of $66 million on the sale of part of the Company's investment in Gretag, which increased net earnings by $44 million.

(4) Includes a $42 million charge for the write-off of in-process R&D associated with the Imation acquisition.

(5) Includes $1,455 million of restructuring costs, asset impairments and other charges, which reduced net earnings by $990 million; $186 million for a write-off of in-process R&D associated with the Wang acquisition, which reduced net earnings by $123 million; and a $46 million litigation charge, which reduced net earnings by $30 million.

(6) Includes a $186 million charge for the write-off of in-process R&D associated with the Wang acquisition.

(7) Includes $358 million of restructuring costs, which reduced net earnings by $256 million, and a $387 million loss related to the sale of the Office Imaging business, which reduced net earnings by $252 million.

(8) Basic and diluted earnings per share from continuing operations were $3.00 and $2.95, respectively.

(9) Excludes short-term borrowings.

2000 Kodak Health, Safety, and Environment

To Shareholders:

For Kodak, the year 2000 marked continued, diligent attention to world-class principles and practices in the Health, Safety and Environment (HSE) arena.

It also was a year in which we:
1. recycled our 427 millionth one-time-use camera; 2. advanced our worldwide manufacturing systems to the brink of complete International Standards Organization 14001 Environmental Management System registration; 3. partnered with the U.S. Environmental Protection Agency (EPA) on a project promoting computer-based screening of new chemicals; 4. extended even further our support for environmental education and outreach initiatives; 5. conducted a rigorous external audit of our HSE Assessment Program.

Here's a bit more information on each of these achievements:

1. One-Time-Use Camera Recycling In 2000, Kodak recycled 116 million one-time-use cameras, which meant we diverted 19 million pounds of material from landfills. Since 1990, Kodak has recycled 427 million one-time-use cameras and diverted 71 million pounds from landfills.

As a point of comparison, the recycling rate for aluminum cans in the United States is approximately 63 percent. For Kodak one-time-use cameras in the United States, the recycling rate is 74 percent.

2. ISO 14001 Environmental Management System Registration
Four more Kodak manufacturing sites — two in China, one in India, and one in Oregon — attained ISO 14001 registration in the year 2000. To date, 23 manufacturing sites worldwide have achieved this registration by adhering to the stringent environmental requirements set by the ISO. In addition, the Corporate HSE program has attained ISO 14001 registration. By year end 2001, it is expected that every Kodak major manufacturing site worldwide will have achieved this certification.

3. EPA Project Kodak and the U.S. EPA signed an innovative agreement that will lead to significant reduction in waste, improvements in cycle time, and savings in R&D costs while enabling Kodak to produce more environmentally friendly products.

Kodak will use a series of pollution-prevention, computerized tools developed by EPA to screen chemicals while they are in early stages of development. The agreement is part of the EPA's Project XL (eXcellence and Leadership).

4. Education and Outreach Kodak continued to support efforts to encourage conservation of resources and to help more people — particularly young people — to learn about biodiversity. Through the Kodak American Greenways Awards, we support an initiative of The Conservation Fund which promotes green corridors and open spaces across the United States. Through World Wildlife Fund's "Windows on the Wild" program, we help children to comprehend the meaning and importance of biodiversity. In 2000, we also began an affiliation with the National Parks Foundation as one of five corporate "Proud Partners" who have pledged to help encourage the public to learn about, to experience, and to get involved with the 380 U.S. National Parks. We also are strong supporters of The Nature Conservancy.

5. Outstanding Audit Every three years, we submit our Corporate HSE Assessment Program to a rigorous audit by an independent firm that specializes in environmental assessments and consulting. In 2000, the URS Corporation of San Francisco conducted the audit and found that Kodak's HSE Assessment Program "met or exceeded" every one of URS' 13 key assessment criteria.

The executive summary of that audit noted that Kodak's Corporate HSE Assessment Program "is a premier quality program that provides the company with an accurate measurement of worldwide HSE compliance," and "the program is actively supported by senior management."

A Look to the Future While we are proud of our accomplishments in the year 2000, we mostly view them as a solid foundation for a new century and a new millennium of environmental stewardship.

Daniel A. Carp
Chairman, President and Chief Executive Officer

R. Hays Bell
Vice-President, Director, Health,Safety and Environment
Chairman, Health,Safety and Environment Coordinating Committee

Charles S. Brown, Jr.
Senior Vice-President, Director, Global Manufacturing
Chairman, Health, Safety and Environmental Management Council

2000 Global Diversity

Leadership Last year, Kodak reaffirmed its commitment to diversity by naming May Snowden as the company's first Chief Diversity Officer. She will guide and direct Kodak's progress towards its diversity goals with the aims of fully engaging the talents of all employees and maximizing the support we enjoy from the external communities we serve.

"At Kodak," Ms. Snowden says, "our commitment to diversity means shaping our culture so that all stakeholders contribute fully to our success as a global leader in imaging. I believe that holding ourselves accountable for higher diversity standards will lead to a healthier business, and to healthier communities as well."

Kodak is Committed to Diversity as a Workforce Strategy At Kodak, we know that our prime source of sustainable competitive advantage is our people and the effectiveness of their work together. Diverse opinions and fresh ideas create the most competitive solutions. To aggressively recruit people of color (POC) and women, we have partnered with colleges and universities that historically graduate these students, and attend local, regional and national conferences and career fairs.

Eastman Kodak Company: United States Workforce

	Percent Women			Percent POC		
	00	99	98	00	99	98
Total U.S. Employees	37%	37%	37%	21%	21%	20%
Board of Directors	33%	33%	23%	8%	0%	8%
Senior Managers, Directors, Managers and Supervisors	30%	27%	27%	12%	11%	10%
Exempt Individual Contributors	29%	29%	28%	11%	11%	9%
Nonexempt Contributors	41%	41%	41%	25%	25%	24%

Voice of Employees When our employees were asked about their workplace, a full seventy-two percent agreed that their supervisors demonstrate respect for the styles, personalities, and viewpoints of others. More than half of all employees agree that Kodak is creating an inclusive environment that values diversity.

Officers Measurement is the hallmark of Kodak's commitment to integration of diversity and inclusion into our day-to-day operation. Each officer is held accountable for his or her results through the Leadership and Diversity metric of the Management Performance Commitment Process (MPCP) that is tied to a portion of compensation. This measures progress in workforce diversity and culture transformation. Senior managers regularly measure progress as part of ongoing operational reviews.

CEO Diversity Award The Kodak CEO Diversity Award is presented annually to a Kodak middle- or senior-level manager who demonstrates excellence in advancing the company's diversity initiatives. Candidates for the award are nominated by other employees and are judged on the basis of demonstrated achievements.

In 2000, there were two honorees: Patricia A. Bitnar, Regional Business General Manager, and Vice President, Kodak Professional, Latin American Region, and Charles S. Brown, Director of Global Manufacturing, and Senior Vice President, Eastman Kodak Company.

Ms. Bitnar has received many accolades for helping women and minorities break new ground within the company's Latin American Region. Mr. Brown is frequently cited as a role model for his aggressive efforts to create and sustain an inclusive environment within Kodak's Global Manufacturing area.

Kodak is Committed to Our Communities Kodak contributes to the vitality of the communities and the strength of the local economies in which our company does business. Kodak actively supports and promotes efforts to strengthen education, economic development of minority communities, and equal employment opportunity. Among the organizations we proudly support are: NAACP, National Urban League, National Council of La Raza, the American Indian Science and Engineering Society and the Society of Women Engineers.

Supplier Diversity Kodak continues to benchmark against America's leading companies as we accelerate our goals for Supplier Diversity. By doing business with more minority-owned and women-owned enterprises, we expand our purchasing options, help create new jobs and enjoy increased access to important markets.

Last year alone, our Supplier Diversity team awarded more than $240 million in contracts to qualified contractors and subcontractors, who are now part of our supplier network. Our senior purchasing managers have a portion of their future compensation tied to their success in building upon these diversity accomplishments.

External Recognition We continue to establish a standard of excellence that is recognized externally. Highlights from the year 2000 include: 100 Best Companies for Working Mothers — *Working Mother* magazine / Top 50 Blacks in Corporate America (Lance Drummond, COO of Kodak Professional) — *Black Enterprise* magazine / 50 Top Companies for Hispanic Employees — *Latina Style* magazine / Out & Equal Workplace Award — Out and Equal Workplace Advocates.

Corporate Directory

Board of Directors

Daniel A. Carp*
Chairman, President & Chief Executive Officer
Eastman Kodak Company[6]

Richard S. Braddock
Chairman
priceline.com[3, 2, 6]

Martha Layne Collins
Executive Scholar in Residence
Georgetown College, Kentucky[5, 1, 6]

Alice F. Emerson
Senior Advisor
The Andrew W. Mellon Foundation[2, 3]

Paul E. Gray
President Emeritus & Professor
Massachusetts Institute of Technology[1, 5, 6]

Durk I. Jager
Retired Chairman, President & Chief Executive Officer
The Procter & Gamble Company[4, 3, 6]

Debra L. Lee
President & Chief Operating Officer
BET Holdings, Inc.[2, 5]

John J. Phelan, Jr.
Retired Chairman & Chief Executive Officer
New York Stock Exchange, Inc.[3, 4]

Hector de J. Ruiz
President and Chief Operating Officer
Advanced Micro Devices, Inc.[1, 5]

Laura D'Andrea Tyson
Dean, Walter A. Haas School of Business
University of California, Berkeley[1, 4]

Richard A. Zimmerman
Retired Chairman & Chief Executive Officer
Hershey Foods Corporation[2, 4, 6]

1. Audit Committee (Paul E. Gray, Chair)
2. Committee on Directors (R.A. Zimmerman, Chair)
3. Executive Compensation and Development Committee (R.S. Braddock, Chair)
4. Finance Committee (Durk I. Jager, Chair)
5. Public Policy Committee (M.L. Collins, Chair)
6. Executive Committee (Daniel A. Carp, Chair)

Corporate

Daniel A. Carp*
Chairman, President & Chief Executive Officer

Robert H. Brust*
Chief Financial Officer; Executive Vice President

Mark V. Gulling
Chief Information Officer; Vice President

William G. Love
Treasurer

E. Mark Rajkowski*
Controller

Martin M. Coyne*
President, Commercial Group; Executive Vice President

Michael P. Morley*
Chief Administrative Officer; Executive Vice President

R. Hays Bell
Director, Health, Safety & Environment; Vice President

Michael P. Benard*
Director, Communications & Public Affairs; Vice President

Essie L. Calhoun
Director, Community Relations & Contributions, Communications & Public Affairs; Vice President

Sandra E. Taylor
Director, Public Affairs, Communications & Public Affairs; Vice President

Sharon E. Elliott*
Director, Human Resources; Senior Vice President

Gary P. Van Graafeiland*
General Counsel; Senior Vice President

Joyce P. Haag
Assistant General Counsel and Secretary

Laurence L. Hickey
Assistant Secretary

Eric L. Steenburgh*
Executive Vice President, Global Operations

Charles S. Brown, Jr.*
Director, Global Manufacturing; Senior Vice President

Aaron C. Cross
Director, Global Equipment Manufacturing; Vice President

Daniel T. Meek
Director, Worldwide Color Film, Global Manufacturing; Vice President

Charles C. Barrentine
Manager, Rochester Color Film Flow, Global Manufacturing; Vice President

Theodore D. McNeff
Manager, Worldwide Color Paper Flow and Director, Worldwide Manufacturing Services, Global Manufacturing; Vice President

Alain H. Popelard
Associate Director, Global Manufacturing; Vice President

John J. Chiazza
General Manager, Global Integrated Supply Chain; Vice President

Leonard E. Redon
Director, Rochester Area Operations; Vice President

Richard S. Morabito
Chief Purchasing Officer; Vice President

Stevan G. Ramirez
Chief Quality Officer; Vice President

Carl E. Gustin, Jr.*
Chief Marketing Officer; Senior Vice President

Theodore G. Lewis*
Director, Digital Business Development; Senior Vice President

James C. Stoffel*
Chief Technical Officer, Director, Research & Development; Senior Vice President

Jack C. Chang
Associate Director, Research & Development; Vice President

Business Units

Joerg D. Agin*
President, Entertainment Imaging; Senior Vice President

Yoshikazu Hori
President, Kodak Japan Ltd., General Manager, Japan Region; Vice President

Alain Joffrin
General Manager, European, African & Middle Eastern Region; Vice President

George M. King
General Manager, Latin American Region; Vice President

Carl A. Marchetto*
President, Commercial & Government Systems; Senior Vice President

J. Michael McQuade*
President, Health Imaging; Senior Vice President

Richard F. Cimino
Area Business General Manager, Americas Area, Health Imaging; Vice President

Sharon J. Crino
Area Business General Manager, Europe, Pacific, Middle East, Africa, Russia Area, Health Imaging; Vice President

Candy M. Obourn*
President, Document Imaging; Senior Vice President

Daniel P. Palumbo*
President, Consumer Imaging; Senior Vice President

Matthias Freund
Chief Operating Officer, Consumer Imaging, President and CEO, Qualex, Inc.; Vice President

Pierre E. Cohade
Regional Business General Manager, European, African and Middle Eastern Region, Consumer Imaging; Vice President

Karen A. Smith-Pilkington
General Manager, Output Products Business, Consumer Imaging; Vice President

Mary Jane Hellyar
General Manager, Film Business, Consumer Imaging; Vice President

Kent D. McNeley
Chief Marketing Officer, Consumer Imaging; Vice President

Bruce C. Swinsky
President, Consumer Imaging, U.S. & Canada Region; Vice President

John Tseng
Regional Business General Manager, Greater Asia Region, Consumer Imaging; Vice President

Henri D. Petit
Chairman & President, Greater Asia Region; Vice President

Edward P. Hoppe
Vice Chairman, Greater Asia Region; Vice President

Willy C. Shih*
President, Digital & Applied Imaging; Senior Vice President

Philip Gerskovich
Chief Operating Officer, Digital and Applied Imaging; Vice President

Robert L. LaPerle
General Manager, kodak.com; Vice President

David L. Swift*
President, Kodak Professional; Senior Vice President

Lance F. Drummond
Chief Operating Officer, Kodak Professional; Vice President

Karel K. Czanderna
General Manager, Output Systems, Kodak Professional; Vice President

Aaron J. McLeod
General Manager, Photographic Services, Kodak Professional; Vice President

Regina A. Pizzoli
Regional Business General Manager, U.S. and Canada Region, Kodak Professional; Vice President

Philip V. Tatusko
General Manager, Graphics and Printing Systems, Kodak Professional; Vice President

David W. Wilson
General Manager, U.S. & Canada Region; Vice President

* "Executive Officer" under the Securities Exchange Act of 1934

Corporate Information

Corporate Offices
343 State Street
Rochester, NY 14650 USA
716/724-4000

State of Incorporation
New Jersey

Annual Meeting
E.M. Pearson Theatre
at Concordia University
St. Paul, MN
Wednesday, May 9, 2001
10:00 a.m.

Common Stock
Ticker symbol: EK.
Most newspaper stock tables list the Company's stock as "EKodak." The common stock is listed and traded on the New York Stock Exchange, which is the principal market for it.

Dividends
Eastman Kodak Company normally pays dividends four times a year, on the first business day of January, April, July, and October, with record dates on the first business day of the preceding December, March, June, and September.

Shareholder Assistance
For information about stock transfers, address changes, dividends, account consolidation, registration changes, lost stock certificates, and Form 1099, contact:
Transfer Agent & Registrar
Fleet National Bank c/o EquiServe
P.O. Box 43016
Providence, RI 02940-3016
800/253-6057
On the World Wide Web at:
www.equiserve.com

For copies of the Annual Report, 10-K, Proxy Statement, or 10-Q, contact:
Literature & Marketing Support
Eastman Kodak Company
343 State Street
Rochester, NY 14650-0532
716/724-2783

For information about the most recent quarterly Sales and Earnings, call:
800/785-6325 (800/78-KODAK)

For other information or questions, contact:
Coordinator, Shareholder Services
Eastman Kodak Company
343 State Street
Rochester, NY 14650-0205
716/724-5492

Eastman Kodak Shares Program
The Eastman Kodak Shares Program is designed to give investors a way to systematically and affordably build their ownership interest in the Company. This Program provides a means of regular dividend reinvestment and includes a voluntary investment option, as well as an automatic monthly investment option, for purchases of additional shares up to $120,000 per year. The minimum initial investment is $150, with additional investments as little as $50.

For information contact:
Fleet National Bank c/o EquiServe
Eastman Kodak Shares Program
P.O. Box 43016
Providence, RI 02940-3016
800/253-6057

Duplicate Mailings
If you receive more than one annual report and proxy statement and wish to help us reduce costs by discontinuing multiple mailings to your address, contact:

Fleet National Bank c/o EquiServe
P.O. Box 43016
Providence, RI 02940-3016
800/253-6057

Electronic Proxy Materials
Kodak's proxy materials can now be received electronically. This option will save the Company the cost of printing and mailing these materials to you. It will also make them accessible to you immediately as soon as they are available.

If you are a registered holder (you own the stock in your name), and wish to receive your proxy materials electronically rather than receiving hard copy, go to www.econsent.com/ek

If you are a street holder (you own the stock through a bank or broker), please contact your broker and ask for electronic delivery of Kodak's proxy materials.

Product Information
For information about Kodak products and services, call the Kodak Information Center:
800/242-2424

Kodak on the Net
For information about the Company and its products, please visit us on the World Wide Web at: www.kodak.com.

Credits
Photos: Todd Hido pg 13-17, Allan Farkus pg 30, Stephen Kelly pgs 2,5,20-25 and inside front cover.

Several of the photos in this annual report are the work of amateur photographers, winners of an annual photography contest that Kodak sponsored from 1937 through 1998. They are: Sharon Ann Lucas (front cover), Linda Beavers (page 3), Deborah Marsh (page 4), Bruce G. Laval (page 6), Davis Parsons (page 7), Arline Grower (inside back cover) and Cesar M. Celdon (back cover). We extend our appreciation and thanks to them and to all who use our products to capture the special moments in their lives.

Design: Cahan & Associates, San Francisco, CA.

This 2000 Annual Report was produced using Kodak films, papers, graphic arts products, and Kodak photo CD products. This report is printed on recycled paper containing at least 10% post-consumer waste.

Eastman Kodak Company
343 State Street
Rochester, NY 14650

Notice of 2001 Annual Meeting and Proxy Statement

Date of Notice March 22, 2001

NOTICE OF THE 2001
ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders of Eastman Kodak Company will be held on Wednesday, May 9, 2001, at 10:00 AM, at the E.M. Pearson Theatre at Concordia University, 312 North Hamline Avenue, St. Paul, MN 55104. There are three proposals to be voted on at the Meeting:

1. Election of four Class II directors for a term of three years:
   - William W. Bradley
   - Alice F. Emerson
   - Hector de J. Ruiz
   - Laura D'Andrea Tyson
2. Ratification of election of PricewaterhouseCoopers LLP as independent accountants
3. Amendment to 2000 Management Variable Compensation Plan

The Board of Directors recommends a vote FOR items 1-3.

If you were a shareholder of record at the close of business on March 12, 2001, you are entitled to vote at the Annual Meeting.

If you have any questions about the Meeting, please contact:

Coordinator, Shareholder Services
Eastman Kodak Company
343 State Street
Rochester, New York 14650-0205
(716) 724-5492

The E.M. Pearson Theatre is handicap accessible. If you require special assistance, call the Coordinator, Shareholder Services.

By Order of the Board of Directors

Joyce P. Haag
Secretary and Assistant General Counsel
Eastman Kodak Company
March 22, 2001

March 22, 2001

Dear Shareholder:

You are cordially invited to attend our Annual Meeting of Shareholders on Wednesday, May 9, 2001, at 10:00 AM, at the E.M. Pearson Theatre at Concordia University, 312 North Hamline Avenue, St. Paul, MN 55104. You will be asked to vote on three proposals. We will also review Kodak's performance and answer your questions.

You may vote by internet, telephone, written proxy, or written ballot at the Meeting. We encourage you to use the internet; it is the most cost-effective way to vote.

We look forward to seeing you on May 9 and would like to take this opportunity to remind you that your vote is very important.

Sincerely,

Daniel A. Carp

Daniel A. Carp
Chairman of the Board

343 STATE STREET • ROCHESTER, NEW YORK 14650

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QUESTIONS AND ANSWERS

Q: What am I voting on?

A: You are voting on three proposals:

1. Election of four Class II directors for a term of three years:
   William W. Bradley
   Alice F. Emerson
   Hector de J. Ruiz
   Laura D'Andrea Tyson
2. Ratification of election of PricewaterhouseCoopers LLP as independent accountants.
3. Amendment to 2000 Management Variable Compensation Plan.

Q: What are the voting recommendations of the Board?

A: The Board recommends the following votes:

- FOR each of the directors.
- FOR ratification of election of PricewaterhouseCoopers LLP as independent accountants.
- FOR amendment to 2000 Management Variable Compensation Plan.

Q: Will any other matters be voted on?

A: We are not aware of any other matters that you will be asked to vote on at the Meeting. If any other matter is properly brought before the Meeting, Daniel A. Carp and Joyce P. Haag, acting as your proxies, will vote for you in their discretion. New Jersey law (under which the Company is incorporated) requires that you be given notice of all matters to be voted on, other than procedural matters such as adjournment of the Meeting.

Q: How do I vote?

A: There are four ways to vote:

- By internet at http://www.eproxyvote.com/ek. We encourage you to vote this way.
- By toll-free telephone at (877) 779-8683.
- By completing and mailing your proxy card.
- By written ballot at the Meeting.

If you vote by internet or telephone, your vote must be received before midnight of the day before the Meeting. Your shares will be voted as you indicate. If you do not indicate your voting preferences, Daniel A. Carp and Joyce P. Haag will vote your shares FOR items 1 – 3.

Q: Who can vote?

A: You can vote at the Meeting if you were a shareholder of record as of the close of business on March 12, 2001 (the Record Date). Each share of common stock is entitled to one vote.

Q: Can I change my vote?

A: Yes. You can change your vote or revoke your proxy any time before the Meeting by:

- entering a new vote by internet or telephone;
- returning a later-dated proxy card;
- notifying Joyce P. Haag, Secretary and Assistant General Counsel; or
- completing a written ballot at the Meeting.

Q: What vote is required to approve each proposal?

A: The four director nominees receiving the greatest number of votes will be elected. The ratification of election of the independent accountants and the amendment to 2000 Management Variable Compensation Plan each requires the affirmative vote of a majority of the votes cast at the Meeting.

Q: Is my vote confidential?

A: Yes. Only the inspectors of election and certain individuals who help with processing and counting the vote have access to your vote. Directors and employees of the Company may see your vote only if the Company needs to defend itself against a claim or if there is a proxy solicitation by someone other than the Company. Therefore, please do not write any comments on your proxy card.

Q: Who will count the vote?

A: Fleet National Bank will count the vote. Its representatives will be the inspectors of election.

Q: What shares are covered by my proxy card?

A: The shares covered by your card represent all the shares of Kodak stock you own, including those in the Eastman Kodak Shares Program and the Employee Stock Purchase Plan, and those credited to your account in the Eastman Kodak Employees' Savings and Investment Plan and the Kodak Employees' Stock Ownership Plan. The trustees and custodians of these plans will vote your shares in each plan as you direct.

Q: What does it mean if I get more than one proxy card?

A: It means your shares are in more than one account. You should vote the shares on all your proxy cards. To provide better shareholder service, we encourage you to have all your shares registered in the same name and address. You may do this by contacting our transfer agent, Fleet National Bank, at (800) 253-6057.

Q: Who can attend the Annual Meeting?

A: All shareholders of record as of the close of business on March 12, 2001, can attend. Seating, however, is limited. Attendance at the Meeting will be on a first-come, first-served basis, upon arrival at the Meeting. Photographs will be taken at the Annual Meeting. We may use these photographs in publications. If you attend the Meeting, we assume your permission to use your picture.

Q: What do I need to do to attend the Annual Meeting?

A: To attend the Meeting, please follow these instructions:

- If you vote by using the enclosed proxy card, check the appropriate box on the card.
- If you vote by internet or telephone, follow the instructions provided for attendance.
- If a broker or other nominee holds your shares, bring proof of your ownership with you to the Meeting.
- To enter the Meeting, bring the Admission Ticket attached to your proxy card or printed from the internet.
- If you do not have an Admission Ticket, go to the Special Registration desk upon arrival at the Meeting.

Seating at the Meeting will be on a first-come, first-served basis, upon arrival at the Meeting.

Q: Can I bring a guest?

A: Yes. If you plan to bring a guest to the Meeting, check the appropriate box on the enclosed proxy card or follow the instructions on the internet or telephone. When you go through the registration area at the Meeting, be sure your guest is with you.

Q: What is the quorum requirement of the Meeting?

A: A majority of the outstanding shares on March 12, 2001, constitutes a quorum for voting at the Annual Meeting. If you vote, your shares will be part of the quorum. Abstentions and broker non-votes will be counted in determining the quorum, but neither will be counted as votes cast. On March 1, 2001, there were 290,089,490 shares outstanding.

Q: How do I recommend someone to be a director?

A: You may recommend any person to be a director by writing to Joyce P. Haag, Secretary and Assistant General Counsel, Eastman Kodak Company, 343 State Street, Rochester, New York 14650-0218. You must include a description of your nominee's principal occupations or employment over the last five years and a statement from your nominee indicating that he or she will serve if elected. The Committee on Directors will consider persons recommended by shareholders.

Q: How much did this proxy solicitation cost?

A: The Company hired Georgeson Shareholder Communications Inc. to assist in the distribution of proxy materials and solicitation of votes. The estimated fee is $18,500 plus reasonable out-of-pocket expenses. In addition, the Company will reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation material to shareholders.

Q: When are the shareholder proposals due for the 2002 Annual Meeting?

A: Shareholder proposals must be in writing, received by November 20, 2001, and addressed to:

Joyce P. Haag, Secretary and Assistant General Counsel
Eastman Kodak Company
343 State Street
Rochester, New York 14650-0218

Q: What other information about Kodak is available?

A: The following information is available:

- Annual Report on Form 10-K
- Transcript of the Annual Meeting
- Plan descriptions, annual reports, and trust agreements and contracts for the pension plans of the Company and its subsidiaries
- Diversity Report; Form EEO-1
- Health, Safety and Environment Annual Report on Kodak's website at http://www.kodak.com/go/HSE

You may request copies by contacting:

Coordinator, Shareholder Services
Eastman Kodak Company
343 State Street
Rochester, New York 14650-0205
(716) 724-5492

HOUSEHOLDING OF ANNUAL DISCLOSURE DOCUMENTS

The Securities and Exchange Commission recently approved a new rule concerning the delivery of annual disclosure documents. The rule allows us to send a single set of our annual report and proxy statement to any household at which two or more shareholders reside if we believe the shareholders are members of the same family. This rule benefits both you and Kodak. It reduces the volume of duplicate information received at your household and helps to reduce Kodak's expenses. The rule applies to Kodak's annual reports, proxy statements or information statements. Each shareholder will continue to receive a separate proxy card or voting instruction card.

If your household received a single set of disclosure documents for this year, but you would prefer to receive your own copy, please contact our transfer agent, Fleet National Bank, by calling their toll free number, (800) 253-6057.

If you would like to receive your own set of Kodak's annual disclosure documents in future years, follow the instructions described below. Similarly, if you share an address with another Kodak shareholder and together both of you would like to receive only a single set of Kodak's annual disclosure documents, follow these instructions:

> If your Kodak shares are registered in your own name, please contact our transfer agent, Fleet National Bank, and inform them of your request by calling them at (800) 253-6057 or writing them at P.O. Box 43016, Providence, RI 02940-3016.
>
> If a broker or other nominee holds your Kodak shares, please contact ADP and inform them of your request by calling them at (888) 603-5847 or writing them at Householding Department, 51 Mercedes Way, Edgewood, NY 11717. Be sure to include your name, the name of your brokerage firm and your account number.

AUDIO WEBCAST OF ANNUAL MEETING AVAILABLE ON THE INTERNET

This year, for the first time, Kodak's Annual Meeting will be webcast live. If you have internet access, you can access the webcast by going to Kodak's Investor Center webpage at the following address:

> http://www.kodak.com/US/en/corp/investorCenter/investorsCenterHome.shtml

This webcast is listen only. You will not be able to ask questions.

The Annual Meeting audio webcast will be available on Kodak's website for a short period of time after the Meeting.

PROPOSALS TO BE VOTED ON

ITEM 1
ELECTION OF DIRECTORS

Kodak's By-Laws require us to have at least nine directors but no more than 18. The number of directors is set by the Board and is currently 11. The Board is divided into three classes of directors with overlapping three-year terms. There are three Class II directors whose terms expire at the 2001 Annual Meeting.

Paul H. O'Neill, a Class II director, resigned from the Board effective December 31, 2000, in anticipation of his appointment as United States Secretary of the Treasury. John J. Phelan, Jr., a Class I director, is retiring from the Board effective May 9, 2001, in accordance with the Company's retirement policy for directors.

Nominees for election as Class II directors are:
- William W. Bradley
- Alice F. Emerson
- Hector de J. Ruiz
- Laura D'Andrea Tyson

All the nominees agree to serve a three-year term. Information about them is provided beginning on page 12. Alice F. Emerson and Laura D'Andrea Tyson were previously elected by you. William W. Bradley and Hector de J. Ruiz are standing for election by you for the first time.

If a nominee is unable to stand for election, the Board may reduce the number of directors or choose a substitute. If the Board chooses a substitute, the shares represented by proxies will be voted for the substitute. If a director retires, resigns, dies or is unable to serve for any reason, the Board may reduce the number of directors or elect a new director to fill the vacancy. This new director will serve until the next Annual Meeting.

The Board of Directors recommends a vote FOR the election of directors.

ITEM 2
RATIFICATION OF ELECTION OF INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP has been the Company's independent accountants for many years. The Board, on the recommendation of its Audit Committee, elected PricewaterhouseCoopers LLP the Company's independent accountants to serve until the 2002 Annual Meeting.

Representatives of PricewaterhouseCoopers LLP will attend the Meeting to respond to questions and, if they desire, to make a statement.

The Board of Directors recommends a vote FOR the ratification of election of PricewaterhouseCoopers LLP as independent accountants.

ITEM 3

AMENDMENT TO 2000 MANAGEMENT VARIABLE COMPENSATION PLAN

What am I voting on?

You are voting on an amendment to 2000 Management Variable Compensation Plan to add performance measures that the Executive Compensation and Development Committee may select in establishing performance goals. The Board approved this amendment subject to your approval. The amendment appears as Exhibit I on page 34.

What is the 2000 Management Variable Compensation Plan?

The 2000 Management Variable Compensation Plan is our short-term annual bonus plan for executives. The purpose of the Plan is to provide a performanced-based, annual incentive award to attract, retain and motivate our management-level employees and to appropriately recognize their performance. You previously approved this Plan on May 12, 1999. The Plan currently has only one performance measure, Economic Profit/Economic Value Added.

Why is the Plan being amended?

The Plan is being amended in anticipation of the results of a review of our executive compensation program. Periodically we undertake a study of our executive compensation program to determine whether it is fulfilling its stated principles and objectives. At the request of the Executive Compensation and Development Committee, such a study is presently underway. We anticipate completing this study by yearend.

The amendment will provide the Committee the flexibility to select an appropriate performance measure at the end of the study and introduce it in the 2002 performance period.

Why are we requesting your approval?

You are being asked to approve this amendment to allow all compensation paid under the amended plan to continue to be deductible by the Company. Under Section 162(m) of the Internal Revenue Code, a company is generally not permitted to deduct compensation paid in excess of $1 million to its Chief Executive Officer or its four other most highly compensated executive officers, unless the compensation is paid under a performanced-based compensation plan. To satisfy the requirements that apply to performanced-based compensation plans, any performance measure used by the Plan must be approved by our shareholders.

Which additional performance measures are being added to the Plan?

If approved, the amendment would permit the following additional performance measures to be used: return on net assets, return on shareholders' equity, return on assets, return on capital, return on sales, shareholder return, total shareholder return, profit margin, earnings per share, net earnings, operating earnings, earnings before interest and taxes, common stock price per share, cash flow, cost reduction, revenue, revenue growth, sales or market share.

Who is eligible to participate in the Plan?

Plan eligibility is generally limited to the Company's management-level employees. The Committee determines which management-level employees will be participants for a particular performance period. The approximate number of management-level employees who are currently eligible to participate in the Plan is 800.

How are awards determined?

A target bonus is set annually for each executive. The target, which is a percentage of base salary, varies depending on the executive's duties and responsibilities. For 2001, target bonuses range from 25% of base salary to 145% of base salary for the CEO.

If the Plan is amended, any of the Plan's performance measures can be used by the Committee to establish the performance measure for the year. Using this measure, the Committee establishes at the beginning of each year the performance formula for the year. Based on Company performance for the year, this formula determines the size of the award pool for the year. The Committee awards bonuses from the award pool using in large part the results of the management appraisal process. The total award pool does not have to be awarded. The Committee has the authority to carry over unused award pool funds to subsequent performance periods.

In what form are awards paid?

All awards are paid in cash.

What award limits exist under the Plan?

The maximum award payable to the Chief Executive Officer or any of the Company's four other most highly compensated executive officers is $5 million.

Who administers the Plan?

The Executive Compensation and Development Committee oversees the administration of the Plan.

What benefits would have been paid under the Plan if this amendment had been in effect in 2000?

The benefits that would have been paid to the named executive officers, executive officers and all other employees for the 2000 performance period had the amendment been in effect cannot be determined because the amendment identifies a list of performance criteria and does not establish a specific criterion.

What benefits will be paid under this Plan, as amended?

The benefits that will be paid to the named executive officers, executive officers and all other employees cannot be determined because the amendment identifies a list of performance criteria and does not establish a specific criterion.

The Board of Directors recommends a vote FOR the amendment to 2000 Management Variable Compensation Plan.

BOARD OF DIRECTORS


WILLIAM W. BRADLEY


ALICE F. EMERSON


HECTOR DE J. RUIZ

NOMINEES TO SERVE A THREE-YEAR TERM EXPIRING AT THE 2004 ANNUAL MEETING (Class II Directors)

WILLIAM W. BRADLEY
Senator Bradley, 57, is a Managing Director of Allen & Company, Incorporated. From 1997 to 1999, he was a Senior Advisor and Vice Chairman of the International Council of JP Morgan & Co., Inc. During that time, he also served as an essayist for CBS evening news, a visiting professor at Stanford University, Notre Dame University and the University of Maryland. Senator Bradley served in the U.S. Senate from 1978 to 1997 representing the state of New Jersey. Prior to serving in the Senate, he was an Olympic gold medallist in 1964 and a professional basketball player with the New York Knicks from 1967 to 1977, during which time they won two world championships. Senator Bradley holds a BA degree in American History from Princeton University and an MA degree from Oxford University where he was a Rhodes Scholar. He has authored five books on American politics, culture and economy.

ALICE F. EMERSON *Director since May 1992*
Dr. Emerson, 69, is Senior Advisor to The Andrew W. Mellon Foundation, a position she assumed in 1998 after having served as Senior Fellow since 1991. She was President of Wheaton College in Massachusetts from 1975 to 1991 and served the University of Pennsylvania, first as Dean of Women and subsequently as Dean of Students from 1966 to 1975. Dr. Emerson received her bachelor's degree from Vassar College and her Ph.D. degree from Bryn Mawr College. She is a director of AES Corporation and FleetBoston Financial Corporation.

HECTOR DE J. RUIZ *Director since January 2001*
Dr. Ruiz, 55, is President and Chief Operating Officer of Advanced Micro Devices, Inc. (AMD). He joined AMD in these capacities in January 2000. Before joining AMD, Dr. Ruiz served as President of Motorola, Inc.'s Semiconductor Products Sector since May 1997. From 1991 to 1994, Dr. Ruiz was Senior Vice President and General Manager of Motorola's paging and messaging businesses, and in 1996 became Executive Vice President and General Manager of those businesses. Dr. Ruiz joined Motorola in 1977, and from 1977 to 1991, he held the positions of Operations Manager, Vice President of MOS Wafer Processing, Vice President of the Memory Products Division, Corporate Vice President and General Manager of Integrated Circuit Wafer Manufacturing, Corporate Vice President and Assistant General Manager, Microprocessor Products Group, Corporate Vice President and Director of Technology and Senior Vice President. Before joining Motorola, Dr. Ruiz worked at Texas Instruments, Inc. from 1972 to 1977. Dr. Ruiz holds a BS degree in electrical engineering from the University of Texas at Austin and a Ph.D. from Rice University. Dr. Ruiz is a member of the Board of Directors of Darden Restaurants, Inc.

LAURA D'ANDREA TYSON

RICHARD S. BRADDOCK

DANIEL A. CARP

LAURA D'ANDREA TYSON *Director since May 1997*

Dr. Tyson, 53, is Dean of the Walter A. Haas School of Business, at the University of California, Berkeley, a position she assumed in July 1998. Previously, she was professor of the Class of 1939 Chair in Economics and Business Administration at the University of California, Berkeley, a position she held from January 1997 to July 1998. Prior to this position, Dr. Tyson served in the first Clinton Administration as Chairman of the President's National Economic Council and 16th Chairman of the White House Council of Economic Advisers. Prior to joining the Administration, Dr. Tyson was professor of Economics and Business Administration, Director of the Institute of International Studies, and Research Director of the Berkeley Roundtable on the International Economy at the University of California, Berkeley. Dr. Tyson holds a BA degree from Smith College and a Ph.D. degree in economics from the Massachusetts Institute of Technology. Dr. Tyson is the author of numerous articles on economics, economic policy and international competition. She is a director of Fox Entertainment Company, Human Genome Sciences, Inc., Morgan Stanley, Dean Witter, Discover & Co., SBC Communications, Inc. and Exodus Communications.

DIRECTORS CONTINUING TO SERVE A TERM EXPIRING AT THE 2002 ANNUAL MEETING (Class III Directors)

RICHARD S. BRADDOCK *Director since May 1987*

Mr. Braddock, 59, is Chairman of priceline.com, a position he has held since August 1998. He also served as CEO of priceline.com from August 1998 to July 2000. He was Chairman of True North Communications from July 1997 to January 1999. He was a principal of Clayton, Dubilier & Rice, from June 1994 until September 1995. From January 1993 until October 1993, he was Chief Executive Officer of Medco Containment Services, Inc. From January 1990 through October 1992, he served as President and Chief Operating Officer of Citicorp and its principal subsidiary, Citibank, N.A. Prior to that, he served for approximately five years as Sector Executive in charge of Citicorp's Individual Bank, one of the company's three core businesses. Mr. Braddock was graduated from Dartmouth College with a degree in history, and received his MBA degree from the Harvard School of Business Administration. He is a director of Cadbury Schweppes and priceline.com.

DANIEL A. CARP *Director since December 1997*

Mr. Carp, 52, is Chairman, President and Chief Executive Officer of Eastman Kodak Company. He became Chairman on December 8, 2000. He was elected CEO effective January 1, 2000 and President and COO effective January 1, 1997, after having served as Executive Vice President and Assistant Chief Operating Officer since November 1995. Mr. Carp began his career with Kodak in 1970 and has held a number of increasingly responsible positions in market research, business planning, marketing management and line of business management. In 1986, Mr. Carp was named Assistant General Manager of Latin American Region and in September 1988, he was elected a Vice President and named General Manager of that region. In 1991, he was named General Manager of the European Marketing Companies and later that same year, General Manager, European, African and Middle Eastern Region. He holds a BBA degree in quantitative methods from Ohio University, an MBA degree from Rochester Institute of Technology and an MS degree in management from the Sloan School of Management, Massachusetts Institute of Technology. Mr. Carp is a director of Texas Instruments Incorporated.

DURK I. JAGER

DEBRA L. LEE

RICHARD A. ZIMMERMAN

DURK I. JAGER *Director since January 1998*

Mr. Jager, 57, is the former Chairman, President and Chief Executive Officer of The Procter & Gamble Company. He left these positions in July 2000. He was elected to the position of Chief Executive Officer in January 1999 and Chairman of the Board effective September 1999, while continuing to serve as President since 1995. He served as Executive Vice President from 1990 to 1995. Mr. Jager joined The Procter & Gamble Company in 1970 and was named Vice President in 1987. He was graduated from Erasmus Universiteit, Rotterdam, The Netherlands.

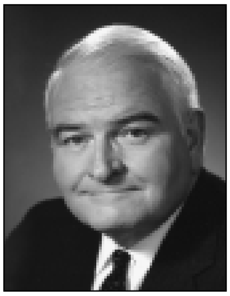
DEBRA L. LEE *Director since September 1999*

Ms. Lee, 46, is President and Chief Operating Officer of BET Holdings, Inc. (BET), a position she has held since March 1996. She joined BET in 1986 as Vice President and General Counsel. In 1992, she was elected Executive Vice President of Legal Affairs and named publisher of BET's magazine division, in addition to serving as general counsel. She was placed in charge of strategic business development in 1995. Ms. Lee holds a BA degree from Brown University and MA and JD degrees from Harvard University. Ms. Lee is a director of WGL Company and Genuity, Inc.

RICHARD A. ZIMMERMAN *Director since July 1989*

Mr. Zimmerman, 69, is the retired Chairman and Chief Executive Officer of Hershey Foods Corporation. Mr. Zimmerman joined Hershey in 1958 and was named Vice President in 1971. Appointed a Group Vice President later in 1971, he became President and Chief Operating Officer in 1976. He was named Chief Executive Officer in January 1984 and Chairman of the Board in March 1985. Mr. Zimmerman was graduated from Pennsylvania State University. He is a director of Stabler Companies, Inc. and Westvaco Corporation.

MARTHA LAYNE COLLINS



PAUL E. GRAY

DIRECTORS CONTINUING TO SERVE A TERM EXPIRING AT THE 2003 ANNUAL MEETING (Class I Directors)

MARTHA LAYNE COLLINS *Director since May 1988*

Governor Collins, 64, is Executive Scholar in Residence at Georgetown College, a position she assumed in August 1998, after having been Director, International Business and Management Center, at the University of Kentucky since July 1996. From 1988 to 1997, she was President of Martha Layne Collins and Associates, a consulting firm, and from July 1990 to July 1996, she was President of St. Catharine College in Springfield, Kentucky. Following her receipt of a BS degree from the University of Kentucky, Governor Collins taught from 1959 to 1970. After acting as Coordinator of Women's Activities in a number of political campaigns, she served as Clerk of the Supreme Court of the Commonwealth of Kentucky from 1975 to 1979. She was elected to a four-year term as Governor of the Commonwealth of Kentucky in 1983 after having served as Lieutenant Governor from 1979 to 1983. Governor Collins, who has served as a Fellow at the Institute of Politics, Harvard University, is a director of R. R. Donnelley & Sons Company, Bank of Louisville and Mid-America Bancorp and PurchasePro.

PAUL E. GRAY *Director since September 1990*

Dr. Gray, 69, is President Emeritus of the Massachusetts Institute of Technology (M.I.T.) and Professor of Electrical Engineering and Computer Science. Dr. Gray served as Chairman of the governing board of M.I.T. from 1990 to June 1997 and as its President from 1980 to 1990. He has also served on the M.I.T. faculty and in the academic administration, including responsibilities as Associate Provost, Dean of Engineering and Chancellor. Dr. Gray earned his bachelor's, master's and doctorate degrees in electrical engineering from M.I.T. He is a director of The Boeing Co.

Board Committees

The Board has the committees listed below. All committee members are non-employee, independent directors as defined by the New York Stock Exchange listing standards. Mr. O'Neill, who left the Board on December 31, 2000, was a member of the Audit Committee and the Public Policy Committee. Dr. Ruiz, who joined the Board in January 2001, became a member of the Audit Committee and Public Policy Committee on February 8, 2001.

Audit Committee — ***4 meetings in 2000***

- reviewed the Committee's written charter which is attached as Exhibit II;
- discussed the independence of the independent accountants;
- discussed the quality of the accounting principles used to prepare the Company's financial statements;
- recommended the firm that Kodak should retain as independent accountants;
- reviewed the audit and non-audit activities of both the independent accountants and the internal audit staff of the Company; and
- met separately and privately with the independent accountants and with the Company's Director, Corporate Auditing, to ensure that the scope of their activities has not been restricted and that adequate responses to their recommendations have been received.

Committee on Directors — ***4 meetings in 2000***

- reviewed the qualifications of individuals for election as members of the Board;
- recommended qualified individuals to be considered for Board membership; and
- discussed the shareholder proposals submitted to the Company.

Executive Compensation and Development Committee — ***6 meetings in 2000***

- reviewed the Company's executive development process;
- set the compensation for the executive officers and recommended the compensation of other key management;
- certified and granted awards under the Company's compensation plans; and
- initiated a review of Kodak's executive compensation program.

Finance Committee — ***5 meetings in 2000***

- reviewed the Company's financing strategies including dividend declaration, capital expenditures, debt issuances and foreign exchange hedging;
- reviewed significant acquisitions, divestitures, and joint ventures; and
- reviewed the investment performance and the administration of the Company's defined benefit pension plan.

Public Policy Committee — ***2 meetings in 2000***

- reviewed philanthropic programs;
- reviewed environmental initiatives;
- reviewed employee survey results;
- reviewed employee relations issues; and
- reviewed diversity initiatives.

COMMITTEE MEMBERSHIP					
Name	Audit	Committee on Directors	Executive Compensation and Development	Finance	Public Policy
Richard S. Braddock		X	X*		
Martha Layne Collins	X				X*
Alice F. Emerson		X	X		
Paul E. Gray	X*				X
Durk I. Jager			X	X*	
Debra L. Lee		X			X
John J. Phelan, Jr.			X	X	
Laura D'Andrea Tyson	X			X	
Richard A. Zimmerman		X*		X	

*Chairman

Meeting Attendance

The Board held a total of eight meetings in 2000. Each director attended at least 75% of the meetings of the Board and committees of the Board on which the director served. The average attendance by all directors was over 93%.

Director Compensation

Annual Payments Non-employee directors receive:

- $65,000 as a retainer, at least half of which must be taken in stock or deferred into stock units;
- 2,000 stock options; and
- reimbursement of out-of-pocket expenses for the meetings they attend.

Employee directors receive no additional compensation for serving on the Board.

Deferred Compensation Non-employee directors may defer some or all of their compensation into a phantom Kodak stock account or into a phantom interest-bearing account. Seven directors deferred compensation in 2000. In the event of a change in control, the amounts in the phantom accounts will generally be paid in a single cash payment.

Life Insurance The Company provides $100,000 of group term life insurance to each non-employee director. This decreases to $50,000 at retirement or age 65, whichever occurs later.

Charitable Award Program This program is closed to new participants effective January 1, 1997. The program provides for a contribution by the Company of up to $1,000,000 following a director's death to a maximum of four charitable institutions recommended by the director. The individual directors derive no financial benefits from this program. It is funded by joint life insurance policies purchased by the Company and self-insurance. Each of the following non-employee directors continues to participate in the program: Messrs. Braddock, Phelan, and Zimmerman, Drs. Emerson and Gray, and Gov. Collins.

BENEFICIAL SECURITY OWNERSHIP OF DIRECTORS, NOMINEES AND EXECUTIVE OFFICERS

Directors, Nominees and Executive Officers	Number of Common Shares Owned on January 2, 2001
Richard S. Braddock	18,447 (a) (b)
William W. Bradley	20 (c)
Robert H. Brust	60,377 (b)
Daniel A. Carp	412,258 (b) (d)
Martha Layne Collins	12,115 (a) (b)
Martin M. Coyne	115,949 (b)
Alice F. Emerson	13,922 (a) (b)
George M. C. Fisher	3,657,153 (b) (d)
Paul E. Gray	11,817 (a) (b)
Durk I. Jager	8,622 (a) (b)
Debra L. Lee	3,780 (b)
Michael P. Morley	160,766 (b) (d)
John J. Phelan, Jr.	18,077 (a) (b)
Hector de J. Ruiz	839
Eric L. Steenburgh	39,681 (b) (d)
Laura D'Andrea Tyson	4,790 (a) (b)
Richard A. Zimmerman	15,597 (a) (b)
All Directors, Nominees and Executive Officers as a Group (31), including the above	5,617,483 (a) (b) (c) (d) (e)

(a) Includes the following Kodak common stock equivalents, which are held in the Deferred Compensation Plan for Directors: R. S. Braddock – 5,418; M. L. Collins – 6,915; A. F. Emerson – 9,389; P. E. Gray – 6,817; D. I. Jager – 4,622; J. J. Phelan, Jr. – 12,238; L. D. Tyson – 773; and R. A. Zimmerman – 7,940; and all directors, nominees and executive officers as a group – 54,112.

(b) Includes the following number of shares which may be acquired by exercise of stock options: R. S. Braddock - 2,000; R. H. Brust – 46,666; D. A. Carp – 355,362; M. L. Collins – 2,000; M. M. Coyne – 101,430; A. F. Emerson – 2,000; G. M. C. Fisher – 3,396,505; P. E. Gray – 2,000; D. I. Jager – 2,000; D. L. Lee – 2,000; M. P. Morley – 132,344; J. J. Phelan, Jr. – 2,000; E. L. Steenburgh – 12,872; L. D. Tyson – 2,000; R. A. Zimmerman – 2,000; and all directors, nominees and executive officers as a group – 5,012,526.

(c) W. W. Bradley is a nominee for director. As of March 2001 he owned 20 shares.

(d) Includes the following Kodak common stock equivalents, receipt of which are deferred: D. A. Carp – 25,970; G. M. C. Fisher – 92,608; M. P. Morley – 23,126; E. L. Steenburgh – 16,819; and all directors, nominees and executive officers as a group – 190,778.

(e) The total number of shares beneficially owned by all directors, nominees and executive officers as a group is less than 2% of the Company's outstanding shares.

The above table reports beneficial ownership in accordance with Rule 13d-3 under the Securities Exchange Act of 1934. This means all Company securities over which the directors, nominees and executive officers directly or indirectly have or share voting or investment power are listed as beneficially owned. The figures above include shares held for the account of the above persons in the Eastman Kodak Shares Program and the Kodak Employees' Stock Ownership Plan, and the interests, if any, of the above persons in the Kodak Stock Fund of the Eastman Kodak Employees' Savings and Investment Plan, stated in terms of Kodak shares.

TRANSACTIONS WITH MANAGEMENT

Under Mr. Brust's offer letter, the Company loaned Mr. Brust, Chief Financial Officer and Executive Vice President, the sum of $3,000,000 at an annual interest rate of 6.21%, the applicable federal rate for mid-term loans, compounded annually, in effect for January 2000. The unsecured loan is evidenced by a promissory note dated January 6, 2000. Under Mr. Brust's offer letter, twenty percent of the principal and all of the accrued interest on the loan is to be forgiven on each of the first five anniversaries of the loan. Mr. Brust is not entitled to forgiveness on any anniversary date if he voluntarily terminates his employment or is terminated for cause on or before the anniversary date. The balance due under the loan on December 31, 2000 was $3,000,000.

In March 2001, the Company loaned Mr. Carp, Chairman, President and Chief Executive Officer, $1,000,000 for the purchase of a home. The loan is unsecured and bears interest at 5.07% per year, the applicable federal rate for mid-term loans, compounded annually, in effect for March 2001. The entire amount of the loan and all accrued interest is due upon the earlier of March 1, 2006 or the date of Mr. Carp's termination of employment from the Company. The loan is evidenced by a promissory note dated March 2, 2001.

In August 1999, the Company loaned Mr. Gustin, Chief Marketing Officer and Senior Vice President, $170,000 for the purchase of a home. The loan is unsecured and bears interest at 5.96% per year, the applicable federal rate for mid-term loans, compounded annually, in effect for August 1999. Under the original terms of the loan, the entire amount of the loan and all accrued interest was due upon the earlier of August 10, 2000 or the date of Mr. Gustin's termination of employment. The loan was subsequently modified to require repayment on the earlier of August 10, 2001 or the date of Mr. Gustin's termination of employment. The loan is evidenced by a promissory note dated August 10, 1999. The balance due under the loan on December 31, 2000 was $184,338.

In October 2000, the Company loaned Mr. Lewis, Senior Vice President, Digital Business Development, $240,000 at an annual interest rate of 6.3%, the applicable federal rate for mid-terms loans, compounded annually, in effect for October 2000. The loan will be secured by a mortgage on Mr. Lewis' principal residence. The loan was made under the terms of Mr. Lewis' offer letter and is evidenced by a promissory note dated October 13, 2000. Under Mr. Lewis' offer letter, one third of the principal and all of the accrued interest on the loan is to be forgiven on each of the first three anniversaries of the loan. Mr. Lewis is not entitled to forgiveness on any anniversary date if he voluntarily terminates his employment or is terminated for cause on or before the anniversary date. The balance due under the loan on December 31, 2000 was $243,273.

COMPENSATION OF NAMED EXECUTIVE OFFICERS

The individuals named in the following table were the Company's Chief Executive Officer and the five other highest-paid executive officers during 2000. The figures shown include both amounts paid and amounts deferred.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensation			
					Awards		Payouts	
Name and Principal Position(a)	Year	Salary	Bonus(b)	Other Annual Compensation(c)	Restricted Stock Awards(d)	Securities Underlying Options/ SARs	LTIP Payouts(e)	All Other Compensation(f)
G. M. C. Fisher	2000	$2,000,000	$ 855,000	$ —	$ 0	140,000	$0	$ 288,874
Chairman until 12/7/00	1999	2,000,000	2,520,000	—	0	155,998	0	32,390
	1998	2,000,000	1,710,000	—	0	159,087	0	1,768,222
D. A. Carp	2000	1,000,000	598,500	—	—	100,000	0	0
Chairman,	1999	817,308	1,020,000	—	—	102,223	0	0
President & CEO	1998	741,250	545,063	30,334	1,476,800	401,402	0	0
R. H. Brust	2000	492,764	225,720	—	467,542	228,000	0	1,269
Executive Vice President								
& CFO								
E. L. Steenburgh	2000	588,457	258,552	—	467,000	40,000	0	0
Executive Vice President	1999	569,231	432,000	—	523,504	36,872	0	0
	1998	420,000	189,000	—	643,130	0	0	0
M. M. Coyne	2000	449,449	400,075	—	409,375	146,000	0	0
Executive Vice President	1999	384,996	325,004	—	0	24,176	0	0
	1998	328,017	180,560	—	0	43,528	0	0
M. P. Morley	2000	393,186	184,680	—	0	73,000	0	0
Executive Vice President	1999	358,450	270,816	—	371,720	74,208	0	0
	1998	344,189	166,250	—	0	43,582	0	0

(a) D. A. Carp became Chairman on December 8, 2000. R. H. Brust was hired on January 3, 2000. E. L. Steenburgh was hired on April 13, 1998. M. M. Coyne and M. P. Morley were Senior Vice Presidents until October 23, 2000, when they became Executive Vice Presidents.

(b) This column shows Management Variable Compensation Plan awards for services in the year indicated.

(c) Where no amount is shown, the value of personal benefits provided was less than the minimum amount required to be reported. For D. A. Carp the amount represents tax reimbursement associated with expatriate payments.

(d) The total number and value of restricted stock held as of December 31, 2000, for each named individual (valued at $39.38 per share) were: G. M. C. Fisher – 50,000 shares – $1,969,000; D. A. Carp – 45,679 shares – $1,798,839; R. H. Brust – 11,625 shares – $457,793; M. M. Coyne – 12,640 shares – $497,763; M. P. Morley – 27,867 shares – $1,097,402; E. L. Steenburgh – 26,631 shares – $1,048,729. The amount shown for D. A. Carp for 1998 represents 20,000 shares valued as of the date of grant (May 1, 1998) at $73.84 per share. The amount shown for R. H. Brust represents 11,625 shares valued as of the date of grant (January 3, 2000) at $40.2187 per share. The amount shown for E. L. Steenburgh represents 8,000 shares valued as of the date of grant (February 11, 2000) at $58.375 per share, 8,000 shares valued as of the date of grant (February 12, 1999) at $65.438 per share, and 10,000 shares valued as of the date of grant (April 13, 1998) at $64.313 per share. The amount shown for M. M. Coyne represents 10,000 shares valued as the date of grant (October 2, 2000) at $40.9375 per share. The amount shown for M. P. Morley represents 5,000 shares valued as of the date of grant (October 11, 1999) at $74.344 per share. Dividends are paid on restricted shares as and when dividends are paid on Kodak common stock.

(e) No awards were paid for the periods 1998-2000, 1997-1999 and 1996-1998 under the Performance Stock Program.

(f) For G. M. C. Fisher for 2000, this amount represents a payment in connection with the sale of his house in Rochester, NY; for 1999, this amount represents life insurance premiums; for 1998, this amount includes $1,738,382 of principal and interest forgiven by the Company with respect to two loans which were fully forgiven in 1998 and $29,840 for life insurance premiums. For R. H. Brust for 2000, this amount represents the company matching contribution to his account under the Eastman Kodak Employees' Savings and Investment Plan because he is a participant in the Company's cash balance feature of the Kodak Retirement Income Plan.

OPTION/SAR GRANTS IN LAST FISCAL YEAR					
INDIVIDUAL GRANTS					
Name	Number of Securities Underlying Options/ SARs Granted[(a)]	Percentage of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price Per Share	Expiration Date	Grant Date Present Value[(e)]
G. M. C. Fisher	140,000 [(b)]	1.17%	$55.1875	03/29/10	$2,389,800
D. A. Carp	100,000 [(b)]	0.84	55.1875	03/29/10	1,707,000
R. H. Brust	50,000 [(b)]	0.42	65.6250	01/02/10	967,000
	150,000 [(c)]	1.26	65.6250	01/02/10	2,901,000
	28,000 [(b)]	0.23	55.1875	03/29/10	477,960
E. L. Steenburgh	40,000 [(b)]	0.33	55.1875	03/29/10	682,800
M. M. Coyne	10,000 [(b)]	0.08	65.6250	01/02/10	193,400
	36,000 [(b)]	0.30	55.1875	03/29/10	614,520
	100,000 [(d)]	0.84	39.7500	10/23/10	1,195,000
M. P. Morley	23,000 [(b)]	0.19	55.1875	03/29/10	392,610
	50,000 [(d)]	0.42	39.7500	10/23/10	597,500

(a) Termination of employment, for other than death or a permitted reason, prior to the first anniversary of the grant date results in forfeiture of the options. Thereafter, termination of employment prior to vesting results in forfeiture of the options unless the termination is due to retirement, death, disability or an approved reason. Vesting accelerates upon death.

(b) One third of the options vest on each of the first three anniversaries of the grant date.

(c) One fifth of the options vest on each of the first five anniversaries of the grant date.

(d) One half of the options vest on each of the first two anniversaries of the grant date.

(e) The present value of these options was determined using the Black-Scholes model of option valuation in a manner consistent with the requirements of Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation”.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/SAR VALUES

Name	Number of Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End		Value of Unexercised In-the-Money Options/SARs at Fiscal Year-End*	
			Exercisable	Unexercisable	Exercisable	Unexercisable
G. M. C. Fisher	0	$ 0	2,896,505	791,820	$ 0	$0
D. A. Carp	17,942	408,576	355,362	500,100	50,409	0
R. H. Brust	0	0	0	228,000	0	0
E. L. Steenburgh	0	0	12,872	64,012	0	0
M. M. Coyne	1,879	20,291	91,420	175,702	18,089	0
M. P. Morley	0	0	125,664	152,703	0	0

* Based on the closing price on the New York Stock Exchange - Composite Transactions of the Company's common stock on December 29, 2000, of $39.38 per share.

Long-Term Incentive Plan

Each February the Executive Compensation and Development Committee approves a three-year performance cycle under the Performance Stock Program. Participation in the program is limited to senior executives. The program's performance goal is total shareholder return equal to at least that earned by a company at the 50th percentile in terms of total shareholder return within the Standard & Poor's 500 Composite Stock Price Index.

After the close of a cycle, the Committee calculates the percentage earned of each participant's target award. No awards are paid unless the performance goal is achieved. Fifty percent of the target award is earned if the performance goal is achieved. One hundred percent is earned if total shareholder return for the cycle equals that of a company at the 60th percentile within the Standard & Poor's 500 Composite Stock Price Index.

The Committee has the discretion to reduce or eliminate the award earned by any participant based upon any criteria it deems appropriate. Awards are paid in the form of restricted stock, which restrictions lapse at age 60. The table below shows the threshold (i.e., attainment of the performance goal), target and maximum number of shares for the named executive officers for each cycle. No awards were earned for the 1998-2000 performance cycle as shown in the "LTIP Payouts" column of the Summary Compensation Table shown on page 20.

LONG-TERM INCENTIVE PLAN – AWARDS IN LAST FISCAL YEAR

Name	Number of Shares, Units or Other Rights	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans: Threshold # of Shares	Target # of Shares	Maximum # of Shares
G. M. C. Fisher	N/A	1998-2000	6,750	13,500	20,250
		1999-2001*	6,667	13,334	20,000
		2000-2002*	3,334	6,661	10,000
D. A. Carp	N/A	1998-2000	4,250	8,500	12,750
		1999-2001	4,250	8,500	12,750
		2000-2002	10,000	20,000	30,000
R. H. Brust	N/A	1998-2000*	875	1,750	2,625
		1999-2001*	1,750	3,500	5,250
		2000-2002	2,625	5,250	7,875
E. L. Steenburgh	N/A	1998-2000*	3,014	6,027	9,041
		1999-2001	3,400	6,800	10,200
		2000-2002	3,400	6,800	10,200
M. M. Coyne	N/A	1998-2000	1,650	3,300	4,950
		1999-2001	1,813	3,625	5,438
		2000-2002	1,813	3,625	5,438
M. P. Morley	N/A	1998-2000	1,813	3,625	5,438
		1999-2001	1,813	3,625	5,438
		2000-2002	1,813	3,625	5,438

* Individuals who participate for less than the full performance cycle are eligible for a prorated award based upon the length of their participation.

Employment Contracts and Arrangements

George M. C. Fisher - The Company employed Mr. Fisher under an employment contract that terminated on December 31, 2000. In addition to information found elsewhere in this Proxy Statement, the contract, as amended, provided credit for years of service under the Company's benefit plans, including 22 years of deemed service and five additional years of age for the retirement plan. The pension benefit paid to Mr. Fisher was reduced by the pension paid to him by his prior employer.

The contract also provided Mr. Fisher the following benefits after his retirement from the Company:

- use of office facilities and secretarial assistance;
- use of the Company's aircraft for certain business travel;
- limited use for personal purposes of the Company's aircraft during the two-year period immediately following his retirement;
- life insurance coverage of $3 million;
- retiree coverage under the Company's health and dental plans.

Following his retirement, Mr. Fisher retained both his stock option and restricted stock awards.

Daniel A. Carp - Effective December 10, 1999, the Company entered into a letter agreement with Mr. Carp providing for his employment as President and Chief Executive Officer. The letter agreement provides for a base salary of $1,000,000, subject to annual adjustment, and a target annual bonus of 105% of his base salary. Mr. Carp's compensation will be reviewed annually by the Executive Compensation and Development Committee. In light of Mr. Carp's promotion to Chairman in December 2000, the Executive Compensation and Development Committee approved an increase to Mr. Carp's target annual bonus to 145% of his base salary.

If the Company terminates Mr. Carp's employment without cause, Mr. Carp will be permitted to retain his stock options and restricted stock. He will also receive severance pay equal to three times his base salary plus target annual bonus and prorated awards under the Company's bonus plans. The letter agreement also provides that for pension purposes, Mr. Carp will be treated as if he were age 55, if he is less than age 55 at the time of his termination, or age 60, if he is age 55 or older but less than age 60, at the time of his termination of employment.

In the event of Mr. Carp's disability, he will receive the same severance pay as he would receive upon termination without cause; except it will be reduced by the present value of any Company-provided disability benefits he receives. The letter agreement also states that upon Mr. Carp's disability, he will be permitted to retain all of his stock options.

Eric L. Steenburgh - In April 1998, the Company hired Mr. Steenburgh under an offer letter dated March 12, 1998. If, during the first five years of Mr. Steenburgh's employment, the Company terminates his employment without cause, or if Mr. Steenburgh voluntarily terminates employment for good reason, he will receive severance pay equal to one times his base salary plus target annual bonus. After he has been employed for five years, Mr. Steenburgh will be credited with 20 extra years of service for pension purposes.

Robert H. Brust - The Company employed Mr. Brust under an offer letter dated December 20, 1999. In addition to the information provided elsewhere in this Proxy Statement, the offer letter provides Mr. Brust a special severance benefit. If during the first five years of Mr. Brust's employment, the Company terminates his employment without cause, he will receive severance pay equal to one times his base salary plus target annual bonus. After completing five years of service with the Company, Mr. Brust will be allowed to keep his stock options upon his termination of employment for other than cause.

Change in Control Arrangements

The Company maintains a change in control program to provide severance pay and continuation of certain welfare benefits for virtually all U.S. employees. A "change in control" is generally defined under the program as:

- the incumbent directors cease to constitute a majority of the Board, unless the election of the new directors was approved by at least two-thirds of the incumbent directors then on the Board;
- the acquisition of 25% or more of the combined voting power of the Company's then outstanding securities;
- a merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or any of its subsidiaries that requires the approval of the Company's shareholders; or
- a vote by the shareholders to completely liquidate or dissolve the Company.

The purpose of the program is to assure the continued employment and dedication of all employees without distraction from the possibility of a change in control. The program provides for severance payments and continuation of certain welfare benefits to eligible employees whose employment is terminated, either voluntarily with "good cause" or involuntarily, during the two-year period following a change in control. The amount of the severance pay and length of benefit continuation is based on the employee's position. Each of the named executive officers would be eligible for severance pay equal to three times his base salary plus target annual bonus award. In addition, each named executive officer would be eligible to participate in the Company's medical, dental, disability and life insurance plans until the first anniversary of the date of his termination of employment. The Company's change in control program also requires, subject to certain limitations, tax gross-up payments to all employees to mitigate any excise tax imposed upon the employee under the Internal Revenue Code.

Another component of the program provides enhanced benefits under the Company's retirement plan. Any participant whose employment is terminated, for a reason other than death, disability, cause or voluntary resignation, within five years of a change in control is given up to five additional years of service. In addition, where the participant is age 50 or over on the date of the change in control, up to five additional years of age is given for the following plan purposes:

- to determine eligibility for early and normal retirement;
- to determine eligibility for a vested right; and
- to calculate the amount of retirement benefit.

The actual number of years of service and years of age that is given to such a participant decreases proportionately depending upon the number of years that elapse between the date of a change in control and the date of the participant's termination of employment. If the plan is terminated within five years after a change in control, the benefit for each participant will be calculated as indicated above.

In the event of a change in control which causes the Company's stock to cease active trading on the New York Stock Exchange, the Company's compensation plans will generally be affected as follows:

- under the Executive Deferred Compensation Plan, each participant will be paid the amount in his or her account;
- under the Management Variable Compensation Plan, each participant will be paid a pro rata target award for the year in which the change in control occurs;
- under the Performance Stock Program, each participant will be awarded a pro rata target award for each pending performance cycle and all awards will be cashed out based on the change in control price;
- under the Company's stock option plans, all outstanding options will vest in full and be cashed out based on the difference between the change in control price and the option's exercise price; and
- under the Company's restricted stock programs, all of the restrictions on the stock will lapse and the stock will be cashed out based on the change in control price.

Retirement Plan

The Company funds a tax-qualified defined benefit pension plan for virtually all U.S. employees. Effective January 1, 2000, the Company amended the plan to include a cash balance feature. All of the named executive officers, with the exception of Mr. Brust, participate in the non-cash balance portion of the plan. The cash balance feature covers all new employees hired after March 31, 1999, including Mr. Brust.

Retirement income benefits are based upon an employee's average participating compensation (APC). The plan defines APC as one third of the sum of the employee's participating compensation for the highest consecutive 39 periods of earnings over the 10-year period ending immediately prior to retirement or termination of employment. Participating compensation, in the case of the named executive officers in the Summary Compensation Table, is base salary and Management Variable Compensation Plan awards, including allowances in lieu of salary for authorized periods of absence, such as illness, vacation or holidays.

For an employee with up to 35 years of accrued service, the annual normal retirement income benefit is calculated by multiplying the employee's years of accrued service by the sum of (a) 1.3% of APC, plus (b) 0.3% of APC in excess of the average Social Security wage base. For an employee with more than 35 years of accrued service, the amount is increased by 1% for each year in excess of 35 years.

The retirement income benefit is not subject to any deductions for Social Security benefits or other offsets. The normal form of benefit is an annuity, but a lump sum payment is available in limited situations.

PENSION PLAN TABLE - Annual Retirement Income Benefit
Straight Life Annuity Beginning at Age 65

	Years of Service					
Remuneration	**2**	**20**	**25**	**30**	**35**	**40**
$ 500,000	$ 16,000	$ 160,000	$ 200,000	$ 240,000	$ 280,000	$ 294,000
1,000,000	32,000	320,000	400,000	480,000	560,000	588,000
1,500,000	48,000	480,000	600,000	720,000	840,000	882,000
2,000,000	64,000	640,000	800,000	960,000	1,120,000	1,176,000
2,500,000	80,000	800,000	1,000,000	1,200,000	1,400,000	1,470,000
3,000,000	96,000	960,000	1,200,000	1,440,000	1,680,000	1,764,000
3,500,000	112,000	1,120,000	1,400,000	1,680,000	1,960,000	2,058,000
4,000,000	128,000	1,280,000	1,600,000	1,920,000	2,240,000	2,352,000
4,500,000	144,000	1,440,000	1,800,000	2,160,000	2,520,000	2,646,000
5,000,000	160,000	1,600,000	2,000,000	2,400,000	2,800,000	2,940,000

NOTE: For purposes of this table, Remuneration means APC. To the extent that an employee's annual retirement income benefit exceeds the amount payable from the Company's funded plan, it is paid from one or more unfunded supplementary plans.

The following table shows the years of service credited as of December 31, 2000, to each of the named executive officers. This table also shows the amount of each named executive officer's APC at the end of 2000, except for Mr. Brust who participates in the cash balance feature.

RETIREMENT PLAN		
Name	**Years of Service**	**Average Participating Compensation**
G. M. C. Fisher	29[(a)]	$3,794,998
D. A. Carp	30	1,372,617
E. L. Steenburgh	2[(b)]	700,440
M. M. Coyne	18	580,000
M. P. Morley	36	530,780

(a) Mr. Fisher was credited with 22 extra years of service for purposes of calculating his retirement benefit; any pension benefit payable is offset by any pension paid by his previous employer.

(b) After Mr. Steenburgh has been employed for five years, he will be credited with 20 extra years of service for purposes of calculating his retirement benefit.

Cash Balance Feature

Under the cash balance feature of the Company's pension plan, the Company establishes an account for each participating employee. Every month the employee works, the Company credits the employee's account with an amount equal to four percent of the employee's monthly pay. In addition, the ongoing balance of the employee's account earns interest at the 30-year Treasury bond rate. To the extent federal laws place limitations on the amount of pay that may be taken into account under the plan, four percent of the excess pay is credited to an account established for the employee in an unfunded supplementary plan. If a participating employee leaves the Company and is vested (five or more years of service), the employee's account balance will be distributed to the employee in the form of a lump sum or monthly annuity. If the participating employee's account balance exceeds $5,000, the employee also has the choice of leaving his or her account balance in the plan to continue to earn interest.

In addition to the benefits described above, Mr. Brust is covered under a special supplemental pension arrangement established under his December 20, 1999, offer letter. The supplemental pension arrangement provides Mr. Brust a single life annuity of $12,500 per month upon his retirement if he remains employed with the Company for at least five years. The $12,500 monthly annuity will be offset by Mr. Brust's cash balance benefit and by all other Company-paid retirement income benefits provided to Mr. Brust.

REPORT OF THE EXECUTIVE COMPENSATION AND DEVELOPMENT COMMITTEE

Role of the Committee

The Executive Compensation and Development Committee is made up of four independent members of the Board. The Committee members are neither employees nor former employees of the Company. The functions of the Committee include:

- reviewing the executive compensation strategy,
- reviewing the design of the executive compensation program,
- overseeing the administration of the executive compensation plans,
- monitoring and overseeing the career development of executives,
- annually establishing performance commitments for the CEO, executive officers and key management,
- reviewing performance annually and determining the individual elements of total compensation for the CEO and other designated executives, and
- reviewing at least annually diversity representation at the senior and mid-management levels.

Principles of Executive Compensation

The Company's executive compensation program is designed to:

- tie compensation to performance that is consistent with the Company's values and increases shareholder value,
- attract and retain employees needed to meet the Company's growth and performance objectives,
- set the total compensation of executives at market competitive levels,
- link compensation to both short and long-term performance,
- place a significant portion of each executive's compensation at risk; the more senior an executive's position, the more compensation should be at risk, and
- link the interests of executives with our owners through stock ownership.

Executive Compensation Practices

Each year, the Company participates in surveys prepared by outside consultants. The companies included in these surveys are those the Company competes with for executive talent. Most, but not all, of these companies are included in the Dow Jones Industrial Index shown in the Performance Graph on page 33. Based largely on the median compensation of these surveyed companies, the Committee sets the target compensation of senior executives.

Components of Executive Compensation Program

The components of the executive compensation program are:

- base salary,
- short-term bonus, and
- long-term incentives.

Base Salary: Base salary is the only fixed portion of an executive's compensation. Each executive's base salary is reviewed annually based on (1) a compensation range which corresponds to the executive's job responsibilities; and (2) the executive's individual performance.

The Company measures individual performance in large part through the management appraisal process. This process evaluates performance against a combination of financial and non-financial goals established in the following three areas:

- shareholder satisfaction,
- customer satisfaction, and
- employee satisfaction.

The other portion of the management appraisal process measures an executive's performance relative to the six Company values:

- respect for the dignity of the individual,
- integrity,
- trust,
- credibility,
- continuous improvement and personal renewal, and
- recognition and celebration.

Short-Term Bonus: Under the short-term bonus plan, a target bonus is set annually for each executive. The target, which is a percentage of base salary, varies depending on the executive's duties and responsibilities. For 2000, target bonuses ranged from 25% of base salary to 105% of base salary for the CEO.

The plan's performance measure is Economic Profit/Economic Value Added. Using this measure, the Committee establishes at the beginning of each year a performance formula for the year. Based on Company performance for the year, this formula determines the size of the award pool for the year. The Committee awards bonuses from the award pool using in large part the results of the management appraisal process. The total award pool does not have to be awarded. The Committee has the authority to carry over unused award pool funds to subsequent years.

Based chiefly on the Company's failure to achieve its financial goals, the Committee awarded short-term bonuses for 2000 that were on the whole substantially below target. The Summary Compensation Table on page 20 lists for 2000 the awards for the named executive officers.

Long-Term Incentives: Long-term compensation is delivered through stock options, the Performance Stock Program and restricted stock.

The Company maintains a management stock option program. Stock options encourage executives to act as owners, which helps to further align their interests with the interests of our shareholders. The Committee generally grants stock options once a year under this program. The options are priced at 100% of the fair market value of the Company's stock on the day of grant. The options vest within three years and expire ten years from the date of grant. The Company bases target grants on the median survey values of the companies it surveys. Grants to individual executives are then adjusted using in large part the results of the management appraisal process.

The Performance Stock Program places a portion of top executives' long-term compensation at risk. The program measures performance over a three-year period based on the Company's total shareholder return relative to those companies within the Standard & Poor's 500 Composite Price Index. A description of the program, as well as the threshold, target and maximum awards for the named executive officers appears on page 24. Based on the Company's performance over the three-year performance cycle ending in 2000, no awards were paid for this cycle.

From time to time, the Company grants restricted stock awards to selected executives. These awards are generally made to either (1) induce the recipients to remain with or to become employed by the Company; or (2) recognize exceptional performance.

Share Ownership Program

The interests of the Company's executives must be consistent with those of its shareholders. The Company aims to link these interests by encouraging stock ownership by its executives.

One program designed to meet this objective is the Company's share ownership program. Under this program, each senior executive is required to own stock of the Company worth a multiple of his or her base salary. These multiples range from one times base salary to four times base salary for the CEO. Today, the program applies to approximately 24 senior executives, all of whom have either satisfied or are on track to satisfy the requirements.

Chief Executive Officer Compensation

Mr. Carp was named Chief Executive Officer on January 1, 2000. Coincident with this promotion, the Company entered into an agreement with Mr. Carp concerning his compensation. The terms of this agreement are described on page 25. Below is a description of Mr. Carp's compensation for 2000.

Base Salary: Mr. Carp received a base salary of $1,000,000 as required under his agreement with the Company.

Short-Term Bonus: The Committee used the results of the management appraisal process to determine the CEO's short-term bonus for 2000. Mr. Carp's award is listed in the Summary Compensation Table on page 20. Based primarily on the Company's inability to achieve its financial goals, the Committee awarded Mr. Carp a short-term bonus well below his target award.

Stock Options: In March of 2000, the Committee awarded Mr. Carp his target award of 100,000 shares under the Company's management stock option program.

Performance Stock Program: Based on the Company's financial performance over the three-year period ending in 2000, Mr. Carp did not receive an award for the 1998-2000 performance cycle.

Election as Chairman: On December 7, 2000, the Board elected Mr. Carp its Chairman. As a result of this promotion, the Committee reviewed Mr. Carp's compensation. The Committee did not adjust Mr. Carp's base salary of $1,000,000. The Committee did, however, increase Mr. Carp's target award under the short-term bonus plan from 105% to 145% of base salary and under the management stock option program from 100,000 to 140,000 shares. To recognize Mr. Carp's promotion, the Committee granted him, effective January 12, 2001, a stock option award of 160,000 shares and an award of 20,000 shares of restricted stock.

Leadership and Development

The Committee reviewed the Company's leadership and organization development plans, as well as the Company's profiles for succession candidates. It also discussed the Company's leadership and development strategies. These are designed to provide leaders capable of creating effective organizations and executing business strategies that will drive the success of the Company. In addition, the Committee reviewed diversity activities and goals as part of the Company's diversity program.

Company Policy on Qualifying Compensation

Under Section 162(m) of the Internal Revenue Code, the Company may not deduct certain forms of compensation in excess of $1,000,000 paid to any of the named executive officers that are employed at yearend. The Committee believes that it is generally in the Company's best interests to comply with Section 162(m). The Committee also believes, however, that there may be circumstances in which the Company's interests are best served by maintaining flexibility, whether or not compensation is fully deductible under Section 162(m).

Richard S. Braddock, Chairman
Alice F. Emerson
Durk I. Jager
John J. Phelan, Jr.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee (the Committee) is composed of independent directors and operates under a written charter adopted by the Committee and the Board. A copy of the Committee's charter is attached to this Proxy Statement as Exhibit II. The members of the Committee are Paul E. Gray (Chairman), Martha Layne Collins and Laura D'Andrea Tyson. Paul H. O'Neill, who was also a member of this Committee during 2000, resigned from the Board effective December 31, 2000, in anticipation of his appointment as United States Secretary of the Treasury.

Management has the primary responsibility for the Company's financial statements and the reporting process, including the system of internal controls. PricewaterhouseCoopers LLP, the independent accountants for the Company, are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and to issue a report thereon. The Committee's responsibility is to monitor these processes.

In this context, the Committee has met and held discussions with management and the independent accountants. Management represented to the Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States, and the Committee has reviewed and discussed the consolidated financial statements with management and the independent accountants. The Committee discussed with the independent accountants matters required to be discussed by Statement on Auditing Standards No. 61 "Communication With Audit Committees".

The independent accountants provided to the Committee the written disclosures required by the Independence Standards Board Standard No.1 "Independence Discussion With Audit Committees". The Committee discussed with the accountants the accountants' independence.

The Committee discussed with the Company's internal auditors and independent accountants the plans for their respective audits. The Committee met with the internal auditors and independent accountants, with and without management present, and discussed the results of their examinations, their evaluations of the Company's internal controls, and the quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended that the Board approve the audited financial statements for inclusion in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, and the Board accepted the Committee's recommendation.

The following fees were paid to PricewaterhouseCoopers LLP for services rendered in 2000:

Audit Fees:	$3.8 million
All Other Fees:	$10.8 million

There were no financial information systems design and implementation fees paid to PricewaterhouseCoopers LLP for services during 2000.

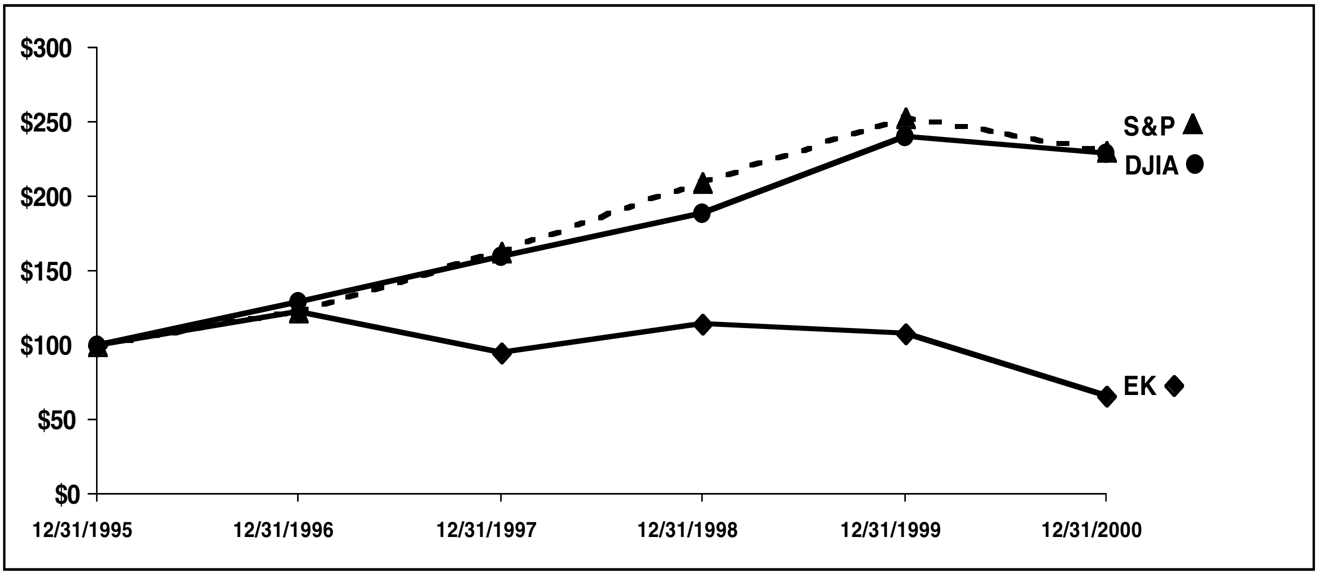
The Committee has reviewed the above fees for non-audit services and believes such fees are compatible with the independent accountants' independence.

The Committee recommended to the Board, subject to shareholder ratification, the election of PricewaterhouseCoopers LLP as the Company's independent accountants.

Paul E. Gray, Chairman
Martha Layne Collins
Laura D'Andrea Tyson

PERFORMANCE GRAPH — SHAREHOLDER RETURN

The following graph compares the performance of the Company's common stock with the performance of the Standard & Poor's 500 Composite Stock Price Index and the Dow Jones Industrial Index, by measuring the changes in common stock prices from December 31, 1995, plus assumed reinvested dividends.



The graph assumes that $100 was invested on December 31, 1995, in each of the Company's common stock, the Standard & Poor's 500 Composite Stock Price Index and the Dow Jones Industrial Index, and that all dividends were reinvested. In addition, the graph weighs the constituent companies on the basis of their respective market capitalizations, measured at the beginning of each relevant time period.

By Order of the Board of Directors

Joyce P. Haag
Secretary and Assistant General Counsel
Eastman Kodak Company
March 22, 2001

EXHIBIT I

AMENDMENT TO 2000 MANAGEMENT VARIABLE COMPENSATION PLAN

Section 2.30 of the 2000 Management Variable Compensation Plan entitled "Performance Criteria" is hereby amended in its entirety to read as follows:

> 2.30 Performance Criteria
>
> "Performance Criteria" means the stated business criterion or criteria upon which the Performance Goals for a Performance Period are based as required pursuant to Proposed Treasury Regulation Section 1.162-27(e)(4)(iii). The Performance Criteria that will be used to establish such Performance Goal(s) will be based on or derived from one or more of the following as designated by the Committee on a company specific basis, business unit basis or in comparison with peer group performance: Economic Profit/EVA, return on net assets ("RONA"), return on shareholders' equity, return on assets, return on capital, return on sales, shareholder return, total shareholder return, profit margin, earnings per share, net earnings, operating earnings, earnings before interest and taxes, Common Stock price per share, cash flow, cost reduction, revenue, revenue growth, sales or market share.

EXHIBIT II

CHARTER OF THE AUDIT COMMITTEE

I. PURPOSE

The primary purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to the Company's:

1. financial statements and financial information provided to shareholders and others,
2. system of internal controls,
3. financial reporting principles and policies,
4. internal and external audit processes, and
5. regulatory compliance programs for ethical business conduct.

II. COMPOSITION

The Audit Committee shall consist of at least three members of the Board who meet the requirements of independence under the NYSE rules, that is, each of whom:

1. is not and has not been an employee of the Company or a Company subsidiary,
2. has no relationship to the Company that may interfere with the exercise of such director's independence from management and the Company,
3. is financially literate or will become so in a reasonable amount of time,
4. has no "cross compensation committee link" as that requirement is defined in Section 303 of the NYSE Listed Company Manual, and
5. has no family relationship with any executive officer of the Company or any affiliate of the Company.

Prospective members shall be recommended by the Committee on Directors with input from the Chairman and CEO and elected by the Board. One member shall be designated by the Board as the Chairman of the Committee.

At least one member of the Committee shall have accounting or related financial management expertise.

III. MEETINGS

The Audit Committee shall meet at least four times per year or more frequently as circumstances require. The Audit Committee shall review its charter at least annually.

The Committee may have in attendance at meetings such members of management or others as it may deem necessary to provide the information to carry out its duties.

IV. DUTIES AND RESPONSIBILITIES

The Audit Committee shall have the following duties and responsibilities with respect to:

1. Independent Accountant
   - (a) Serve as the Board's primary avenue of communication with the independent accountant.
   - (b) Make recommendations to the Board regarding the selection, evaluation, retention, or discharge of the independent accountant.
   - (c) Ensure understanding by the independent accountant and management that the Board, as the shareholders' representative, is the independent accountant's client and therefore the independent accountant is ultimately accountable to the Board and the Audit Committee.
   - (d) Provide the opportunity for the independent accountant to meet with the full Board as deemed necessary and appropriate by the Committee.
   - (e) Confirm and assure the independence of the independent accountant by:
     - (i) accepting receipt of their annual submission of a formal written statement delineating all relationships between the independent accountant and the Company,
     - (ii) monitoring fees paid to the independent accountant for consulting and other non-audit services, and
     - (iii) engaging in a dialogue with the independent accountant with regard to any disclosed relationships or services that may impact the objectivity or independence of the independent accountant.
   - (f) Review the annual audit plan of the independent accountant and its scope.

2. Internal Auditors
   - (a) Serve as the Board's primary avenue of communication with the Director of Corporate Auditing.
   - (b) Review and concur in the appointment, replacement, reassignment, or dismissal of the Director of Corporate Auditing.
   - (c) Confirm and assure the independence of the internal auditors.
   - (d) Review the annual internal audit plan of the internal auditors and its scope, and the degree of coordination of this plan with the independent accountant.
   - (e) Review periodically the internal audit activities, staffing, and budget.

3. Financial Statements
   - (a) Inquire of the independent accountant and management as to the acceptability and appropriateness of financial accounting practices and disclosures used or proposed by the Company.
   - (b) Review and discuss with management and the independent accountant prior to releasing the year-end earnings and at the completion of the annual audit examination:
     - (i) the Company's financial statements and related footnote disclosures,
     - (ii) the independent accountant's audit of the statements and its report thereon,
     - (iii) any significant changes required in the independent accountant's audit plan,
     - (iv) any serious difficulties or disputes with management encountered during the course of the audit, and
     - (v) other matters related to the conduct of the audit which are to be communicated to the Committee under generally accepted auditing standards.
   - (c) Review legal matters that may have a material impact on the financial statements with the General Counsel, Director of Corporate Auditing, the Controller and the independent accountant.
   - (d) Review and discuss with management and the independent accountant, prior to releasing the quarterly earnings, the Company's quarterly financial information. Assure that the independent accountant has reviewed the financial information included in the Company's Quarterly Reports on Form 10-Q prior to filing such reports with the SEC. Such review is to be performed in accordance with AICPA Statement on Auditing Standards No. 71 "Interim Financial Information."
   - (e) Recommend to the Board whether the audited financial statements be included in the Company's Annual Report on Form 10-K, in advance of filing such form with the SEC.

(f) Discuss with the independent accountant the matters required to be discussed by Statement on Auditing Standards No. 61, including, but not limited to:
    (i) the quality and appropriateness of the accounting principles and underlying estimates used in the preparation of the Company's financial statements, and
    (ii) the clarity of financial disclosures in the Company's financial statements.

4. Risks and Uncertainties, Including Contingent Liabilities
    (a) Inquire of management, the Director of Corporate Auditing, and the independent accountant about risks or exposures and review the steps management has taken to minimize such risks or exposures to the Company.
    (b) Consider and review management's analysis and evaluation of significant financial accounting and reporting issues and the extent to which such issues may affect the Company's financial statements.

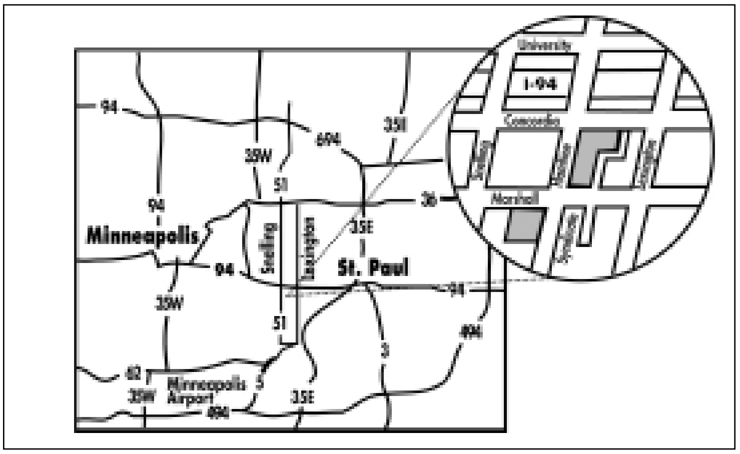
5. Internal Control Environment
    (a) Consider and review with the independent accountant, the Director of Corporate Auditing, and other members of management:
        (i) the adequacy of the Company's internal controls, and
        (ii) significant findings and recommendations of the independent accountant and internal auditors together with management's proposed responsive actions.
    (b) Review the Company's regulatory compliance programs for ethical business conduct.

6. Access and Communication
    (a) Meet separately and privately with the independent accountant and with the Director of Corporate Auditing and with the Company's chief financial and accounting officers to ascertain if any restrictions have been placed on the scope of their activities, and to discuss any other matters that the Committee or these groups believe should be discussed privately with the Audit Committee.
    (b) Report Committee actions to the Board of Directors with such recommendations as the Committee may deem appropriate.

7. Reporting
    (a) Review its charter annually and recommend changes, as necessary, to the Board.
    (b) Report its activities to the Board on a regular basis and make recommendations to the Board with respect to matters within the purview of the Audit Committee, as necessary or appropriate.
    (c) Cause to be included with the Company's Proxy Statement once every three years a copy of the Committee's Charter.
    (d) Cause to be included in the Company's Proxy Statement an Audit Committee Report in accordance with Item 306 of Regulation S-K.
    (e) Cause the Company to annually submit to the NYSE a written affirmation in the form specified by the NYSE.

EASTMAN KODAK COMPANY
2001 ANNUAL MEETING

E.M. Pearson Theatre
at Concordia University
312 North Hamline Avenue
St. Paul, Minnesota

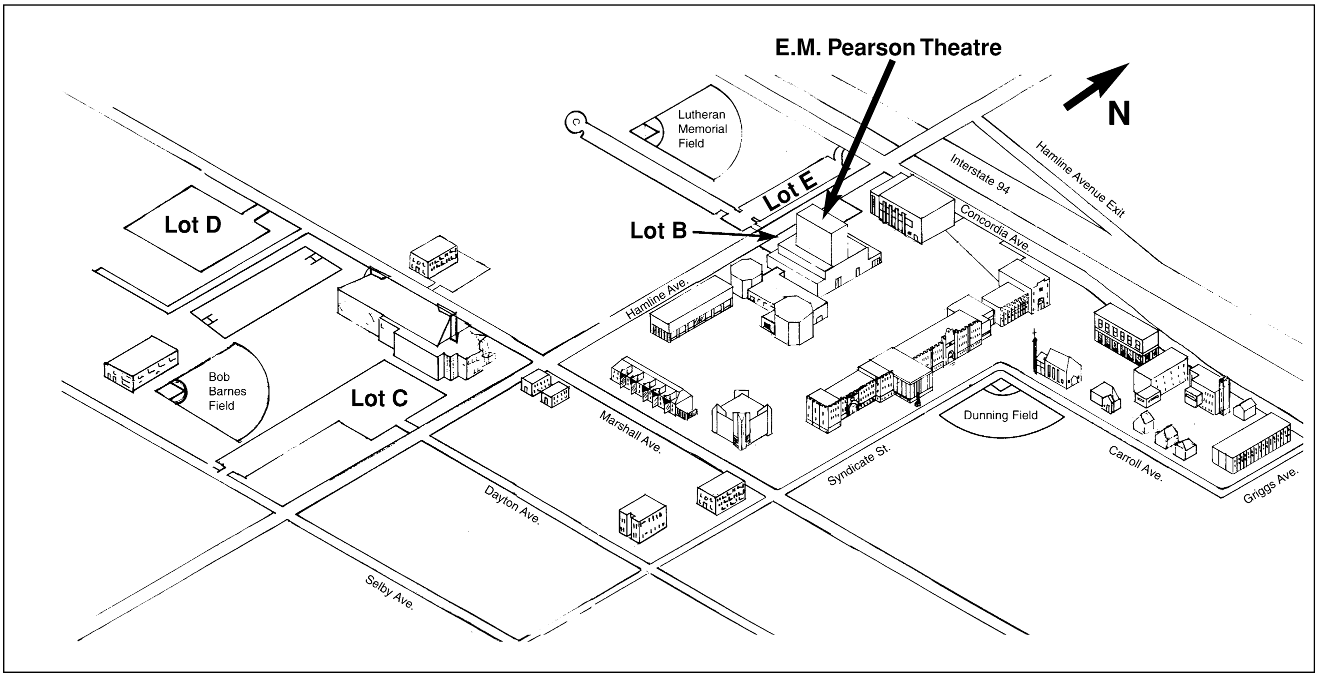


Shareholders may park in the following lots for attending the Meeting:

- Lot E on Hamline Avenue
- Lot C on Hamline Avenue
- Lot D on Marshall Avenue

Parking in these lots is on a first-come, first-served basis.

Lot B will be available **only for handicapped parking** for this Meeting.



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